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FINANCIAL TIMES

Europe's Business Newspaper

MONDAY, JANUARY 24, 1994

Bosnians renew air strikes plea as children die

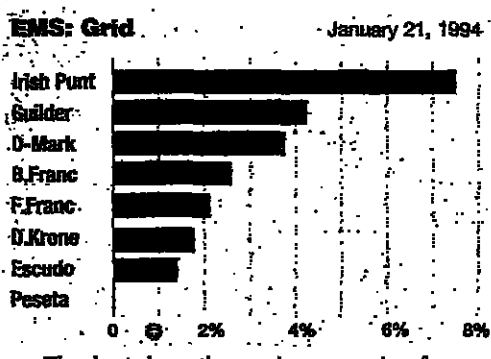
Bosnian Muslims again appealed for Nato air strikes against Serb gunners besieging Sarajevo, the capital, and requested the west to lift its arms embargo. The call came as three children, aged between 10 and 13, were killed in an artillery barrage which hit a playground in the Croat-held part of Mostar, southwest Bosnia. Six other children died in a mortar attack on Saturday. Page 2

Japanese reform bids: Members of Japan's ruling coalition today meet the opposition Liberal Democratic party in an attempt to revive political reform plans, crippled by a revolt in the alliance's own camp. Page 12

China leaps forward: China and Russia have emerged as centres of international takeover activity with overseas companies investing more than \$22bn there in the past 12 months, according to accountants KPMG Peat Marwick. Page 13

Party fights for D-Mark: A new German party, the Free Citizens' Alliance, plans to campaign for freedom, the market economy and the preservation of the Deutsche Mark. Page 12

European Monetary Systems: The currencies of the ERM grid converged slightly last week, with attention focused elsewhere on the dollar, sterling and the yen. The D-Mark held its position as the third strongest currency after the Bundesbank decided against a cut in interest rates, while the Belgian franc showed little reaction to the resignation of three socialist politicians from the ruling coalition. Currencies, Section II



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

GM 'hid truth on losses': General Motors' top executives hid the truth about "scary" losses which ran into billions of dollars two years ago, executive vice-president Bill Hogland said on BBC television's *The Money Programme*. In 1992, the world's biggest industrial company suffered the heaviest annual loss in corporate history, a huge \$10bn. Boost for US cars. Page 3

Kellogg advances: Kellogg, the US maker of ready-to-eat cereals, overcame the competitive threat from unbranded rivals and increased net profits by 17 per cent to \$149.9m in its fourth quarter. Earnings per share rose by 22 per cent to 66 cents. Page 15

Quake homeless suffer: Los Angeles hospitals reported a growing number of exposure-related illnesses among people made homeless by last week's earthquake. Government officials mobilised "the biggest urban aid programme in US history" to help victims. Page 3

Chemicals blow: West German chemicals manufacturers' profits fell sharply for the fourth successive year in 1993, and there is no sign of a lasting recovery. Page 2

Swiss bank doubles profit: Bank J. Vontobel, the Zurich private bank, reported a net profit of SF43.1m (\$22.8m), double the SF15.9m earned in 1992, thanks to booming profits from securities and higher commission income. Page 15

Australian minister quits: Australian prime minister Paul Keating lost his second senior minister in as many months. Alan Griffiths, minister for industry, technology and regional development, resigned amid allegations that party funds and electoral office facilities were misused. Page 4

Banca in control: Banca Commerciale Italiana is to take nearly full control of its 48 per cent unit Banca Sudameris as a result of Dresdner Bank, Banque Indosuez, Paribas and Union Bank of Switzerland pulling out. Page 15

Trainee firefighters killed: Twenty-one teenagers training to be firefighters died after they were trapped in a brush fire in southern Argentina. They were caught in high grass by rapidly shifting winds.

Bank turnaround: Banco Central Hispano, Spain's largest bank in terms of assets, saw net group profits after minorities drop by 8 per cent last year to Pta48.4bn (\$338m). The bank claimed it had turned round the balance sheet after a 22 per cent fall in income in 1992. Page 15

Gunmen kill 32: Gunmen believed to be leftwing guerrillas fired automatic weapons at a gathering of political rivals in the town of Apartado, 300 miles north-west of Bogotá, Colombia, killing at least 32 people. Eight others were wounded.

Actors die: Jean-Louis Barrault, one of France's greatest 20th century actor-directors, died in Paris, aged 83. Telly Savalas, the actor best known as the wise-cracking, lollipop-sucking detective in the 1970s television series *Kojak*, died of prostate cancer in Los Angeles. He was 70.

Fyodorov to ask Yeltsin not to drop reform plan

By Leyla Bouton in Moscow

Mr Boris Fyodorov, the outgoing Russian finance minister, is expected today to make a last-ditch plea to President Boris Yeltsin not to abandon the course of reform he launched two years ago.

The meeting between Mr Fyodorov and the president was suggested by Mr Viktor Chernomyrdin, prime minister, after he unexpectedly rejected the finance minister's resignation. Ahead of the talks Mr Fyodorov had not, however, changed his intention to quit unless at least some of his conditions for staying were met.

International alarm over the government's intention to use "non-monetary methods" to fight inflation was confirmed at the weekend by the new government's first spending decisions. Mr Alexander Zaverukha, deputy prime minister for agricul-

Fyodorov adrift in a sea of promises Page 2

ture who is close to the pro-Communist Agrarian party, announced that the new cabinet planned to spend up to Rb14 trillion on agricultural subsidies in 1994. "This is fully within the scope of our state budget," said Mr Zaverukha, omitting to mention that Russia as yet does not have a budget for 1994.

Mr Sergei Alexashenko, deputy finance minister, said the Rb14 trillion, which compares with a Rb15 trillion budget deficit for the whole of 1993, represented an increase from 7 per cent to 10 per cent in spending on agricultural subsidies. They have proved ineffective so far.

Mr Alexashenko also disclosed in an interview that the government had decided on Saturday to double the amount of money it would ask the central bank to print in the first quarter of 1994. The government had initially

arranged to ask for Rb7 trillion, but on Saturday settled for Rb15 trillion. Mr Alexashenko said increased reliance on such inflationary forms of financing would push inflation up to between 35 per cent and 37 per cent a month in June-July from a present monthly level of about 20 per cent.

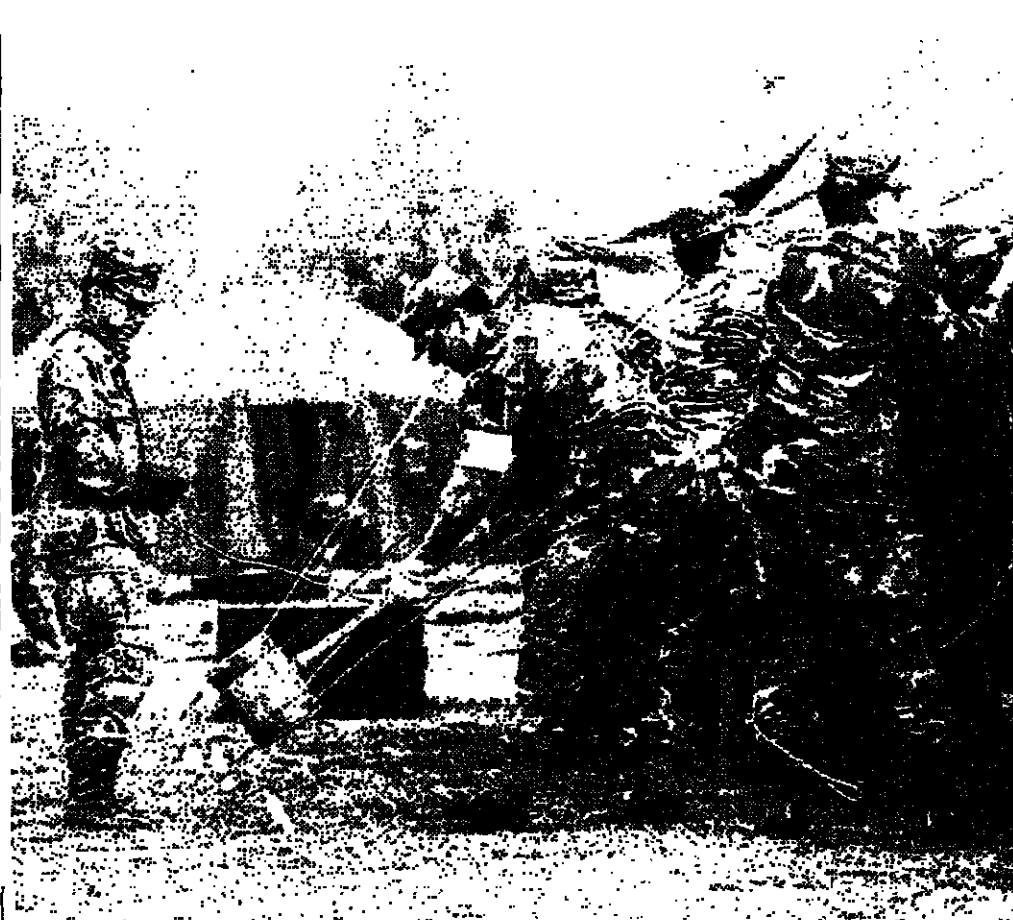
A US Treasury official accompanying Mr Lloyd Bentsen, treasury secretary, on a visit to Japan, was quoted as saying in Tokyo last night that the International Monetary Fund seemed unlikely to release a \$1.5bn loan to Russia because the reforms "have gone off track."

Mr Fyodorov announced he was quitting after Mr Chernomyrdin rejected his demands for the removal of both Mr Zaverukha and of Mr Viktor Geraschenko, the central bank chairman, who believes that tough monetary and fiscal policy are not what Russia needs.

Mr Chernomyrdin, angered by Mr Fyodorov's announcement of conditions under which he would stay in government, said only on Friday that his departure was "not a tragedy".

But on Saturday, possibly surprised by the international outcry over Mr Fyodorov's departure, Mr Chernomyrdin told the finance minister he would not accept the resignation and could not understand why he wanted to leave. Mr Fyodorov is said to have replied he could not understand why Mr Zaverukha had been appointed deputy prime minister and not he, in a government where rank plays an important role in spending decisions; the complaint is less petty than it would seem.

In another sign that he underestimated Mr Fyodorov's importance to international confidence, Mr Chernomyrdin is said to have complained to Russia's representative at the IMF about the postponement of its mission to Moscow this week, which he had counted on to unlock the loan.



Pitching in: California National Guardsmen set up tents to shelter some of the 14,000 people left homeless by the Los Angeles earthquake or fearful of returning to their houses. Report, Page 3

Bentsen warns of review of US-Japan trade agreements

By Paul Abrahams in Tokyo

Mr Lloyd Bentsen, US treasury secretary, warned yesterday that his country would have to re-examine the basis of its bilateral trade agreements with Japan if negotiations failed to make substantial progress by next month.

Mr Bentsen said: "Japan is out of step. It has the lowest penetration of manufactured imports, and it has the lowest foreign investment levels among the major nations."

The negotiations' sticking point appears to be the creation of indicators to ensure that any agreements are properly implemented. The Japanese fear that any objective criteria would form a commitment to set aside certain market shares to overseas companies.

Mr Bentsen said: "From our perspective, we would far prefer no agreements to weak agreements. They would have to include indicators to show we are

making progress." He also called for a sustained and strong fiscal stimulus by the government. He said Japan had promised in the past to do what was necessary to achieve strong domestic demand-led growth and a highly significant reduction in its current account imbalance. In theory a domestic recovery would draw in imports.

"If you look at the figures, that hasn't happened yet. In addition, the forecasts are not very encouraging," he said.

Mr Fujii had agreed it was not in the interests of Japan or the rest of the world for Japan to have such a large trading surplus. Mr Bentsen said. The finance minister yesterday promised serious and vigorous efforts to launch a new stimulus package, including tax cuts to spur domestic demand.

The US wants liberalisation of the Japanese insurance market and increased imports of US vehicles and automotive components.

LDP in reform talks ...Page 12

Israel and PLO see signs of progress

By Julian Ozanne in Jerusalem

Intensive diplomatic activity yesterday injected fresh momentum into the Middle East peace process as Israel and the PLO expressed cautious optimism about progress in stalled peace negotiations and Jerusalem renewed an offer for unconditional talks with President Hafez al-Assad of Syria.

The signs of progress came on the eve of the resumption of peace talks between Israel and its Arab neighbours, due to begin in Washington today.

Mr Shimon Peres, Israeli foreign minister, said Israel was "pretty close" to reaching agreement with the PLO after he met Mr Yasser Arafat, PLO Chairman, in Oslo on Saturday. Mr Peres said Mr Ahmed Qurei (Abu Ala'a) of the PLO and Mr Yoel Singer, an Israeli legal adviser, would meet in Paris during the week to summarise points of agreement and exchange documents. Mr Peres said there was a more than 50 per cent chance a final agreement could be reached when he meets Mr Arafat again at the Davos Economic Forum in Switzerland.

Continued on Page 13

OECD employment study recommends higher capital tax

By David Goodhart and Edward Balls

Higher taxes on capital to offset reductions in non-wage labour costs is one of several radical proposals for reducing unemployment suggested in a study by the Organisation for Economic Co-operation and Development.

The draft policy conclusion of the long-awaited report, which is likely to shape debate at President Bill Clinton's Group of Seven jobs summit in March, emphasises the need for greater flexibility in labour markets to increase employment but falls short of advocating wide US-style wage differentials and labour market deregulation.

The report, a copy of which has been obtained by the Financial Times, has just been sent to the 24 member governments. It is not due to be published until June. It finds little evidence that trade with low-wage countries is a big cause of unemployment in the developed world. It does, however, explicitly link long-term unemployment to rising levels of crime and drug abuse and an "unravelling of the social fabric".

Mr Jean-Claude Paye, the OECD secretary-general who was commissioned to produce the report by member states in June

1992, rejected the accusation that he was being alarmist about the effects of unemployment. "There is a link between unemployment and crime and drugs, and I would be happy to see a mandate from member countries to study that link," he said in an interview.

He said the US had much more employment flexibility than Europe but at the expense of social solidarity, and he warned that a policy emphasis on flexibility and deregulation alone could lead to social dislocation.

The OECD's policy proposals have eight points at their core: nurture an entrepreneurial climate; improve labour force skills and competences; enhance the diffusion of technological know-how; increase wage and labour cost flexibility; reform job security provisions; increase working-time flexibility; encourage a switch from passive to active labour market measures; and reform benefit systems to increase work incentives.

On cutting non-wage labour costs, the report says: "A significant revenue-neutral cut in payroll taxes could yield important increases in employment over the medium term."

Economics Notebook, Page 17

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Fyodorov adrift in sea of promises

Mr Boris Fyodorov's decision to resign as Russian finance minister underlines what is widely seen as the chief obstacle to successful market reform: rulers who cannot resist making promises they cannot keep.

"I can control the spending but not the promises," Mr Fyodorov told the Financial Times.

Other people in the government think that just because they are sitting in the White House [government headquarters], they have the god-given right to spend money... They don't understand you cannot do it."

Mr Fyodorov, a leading reformer, fears that spending in Russia is about to run out of control, fuelling inflation and undermining any hope of stabilising the Russian economy.

The first sign, since his announced departure, that the new cabinet is ready to loosen the government purse strings came at the weekend: the first spending decisions included a

big increase in subsidies to the farm sector announced by Mr Alexander Zverev, deputy prime minister for agriculture, and a doubling in the amount of money the central bank will be asked to print to support expenditure which cannot be covered by budget revenues.

The leading reformer fears the worst for Russia's economy, writes Leyla Boulton

Stung by the international outcry over Mr Fyodorov's resignation, a spokesman for Prime Minister Victor Chernomyrdin said his new course "contains elements of western market economics but takes into account the special characteristics of our state, people and Russian traditions."

It is possible Mr Chernomyrdin wants to restrict spending. But his recent endorsement of a plan to spend up to \$500m (£338m) on a new parliament

building provides a telling example of how Russia's rulers, in Mr Fyodorov's words, look "at a problem and decide to throw money at it regardless of whether this money exists".

For all his tough words, Mr Chernomyrdin has appeared unable to resist the pressure to

make promises he cannot keep. The state owes about Rb1,000bn to the defence industry for weapons it ordered under pressure from the military in the past year. Under pressure from agricultural lobbyists, it set procurement prices for grain twice as high as those on an emerging free market, but then failed to pay the money. It liberalised coal prices but promised to continue paying subsidies to coal miners, without putting

any pressure on the industry to restructure or consider closing unprofitable mines.

Such promises have left Mr Fyodorov in the uncomfortable role of having to break them by telling people there are no funds - save by printing money and fuelling inflation.

And he adds that Russia's main problem is not so much a lack of money but a waste of it. "You find that in 90 per cent of cases, money is misused or people did not need it," he said. Corruption and inefficient institutions meant that subsidies rarely reached their targets, while those most in need of support felt abandoned by the government. "If you stand in front of the British Treasury for an hour and shout, nobody will give you any money," Mr

Fyodorov said. "But here it works, so why should people stop doing it?"

Supporters of Russian reforms believe the west must and can help Moscow cover budget expenditure which cannot be cut overnight. But they also argue that this can happen only if spending is not in the hands of people like Mr Zverev.

If Mr Fyodorov leaves the government, he plans to focus on his role as a deputy in parliament, to take his fight to voters ahead of new elections scheduled for 1995.

"We have to talk to people more and conduct more propaganda to tell them how things work. Then we will have a second chance in the elections." But pessimists believe a second chance may not materialise if, by that time, Mr Chernomyrdin's muddling through goes so badly wrong that the people will be ready for medicine more drastic than even Mr Fyodorov proposes.

Ankara warned on trade taxes

By Frances Williams in Geneva

Turkey has made big strides in liberalising its trade regime over the past decade, but the economic benefits have been marred by rapid inflation, swollen budget deficits and insufficient competition in the domestic market, according to the General Agreement on Tariffs and Trade.

In a report on the country's trade policies and practices, the GATT secretariat says rampant inflation - currently exceeding 70 per cent a year - has been hard to restrain because the authorities have printed money to finance large public deficits.

The government is also over-reliant on trade taxes, GATT says, noting that their share in the total tax revenue has risen from 13 per cent in 1980 to 18 per cent in 1990. As trade taxes become a diminishing source of revenue, Ankara will have to find other ways to reduce the budget deficit and service its foreign debt.

Turkey hopes to reach customs union with the European Union in 1995, which will mean duty-free entry for EU goods and adoption of the EU's common external tariff.

GATT also notes that real wage increases, unmatched by productivity gains, have eroded Turkey's competitiveness, leading to its trade deficit.

The report, the latest in a series on GATT members' trade regimes, came at the end of a week which saw a plunge in the value of the Turkish lira following a downgrading of the country's credit rating by two US ratings agencies.

German jobs gain 'in 1995'

German unemployment will increase this year but the future market value of the private sector, but for many people it has the merit of simplicity as well as providing immediate cash.

Analysts say Epic's offer is likely to be well below the future market value of the private sector, but for many people it has the merit of simplicity as well as providing immediate cash.

Mr Goldschneider will not say how many voucher books the company has bought so far, or how long the offer will remain in force. "We have a target, and we'll stop when we reach it. We don't want to be too small or too big as this reduces flexibility," he says.

In the first wave, Epic attracted 110,000 investors with shares in about 60 companies to its Czech Coupon Invest

Belgium acts on resignation

The Belgian government yesterday replaced Mr Guy Coëme as deputy prime minister, after his resignation last week in the wake of a corruption scandal over a deal to buy army helicopters.

The francophone Socialist party (PS) picked Mr Elio di Rupo, 43, formerly a regional minister, to succeed Mr Coëme.

Mr Coëme and two regional PS politicians resigned on Friday over allegations that the Italian company Agusta paid bribes to secure a contract. All three have denied wrongdoing.

Czechs opt for early payout on state shares

Patrick Blum on the rush to sell privatisation vouchers

An offer of immediate cash is enticing thousands of Czechs to part with their privatisation voucher books now rather than wait for shares, later in the Czech Republic's second wave of mass privatisation.

The offer made by Epic, a Vienna-based consultancy and fund management company, has attracted great interest and publicity, with hundreds of people lining up outside offices in Prague and other Czech cities to sell their voucher books.

"We've had people queuing overnight. It's been a tremendous success," says Mr Peter Goldschneider, Epic managing director.

Competition for subscribers between investment funds has been particularly fierce with an estimated Kcs1bn (£85m) spent on advertising - roughly five times the amount spent by funds in the first wave of privatisation two years ago. In 1992 many funds tried to outbid one another with promises to buy portfolios from investors at some future date for several times the Kcs1,000 cost of their original voucher book. This assured investors a risk-free profit on a relatively modest outlay, and encouraged massive participation in the scheme.

About 6m Czechs bought voucher books, and the funds gained control of more than 70 per cent of privatised companies' shares.

Epic has gone one step further by simply offering an immediate Kcs7,000 to buy an investor's voucher book, with another Kcs1,000 paid later when the shares are issued. "We're not making any promises or offering people loans as an incentive."

"We just cash out," says Mr Goldschneider.

Analysts say Epic's offer is likely to be well below the future market value of the private sector, but for many people it has the merit of simplicity as well as providing immediate cash.

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In the first wave, Epic attracted 110,000 investors with shares in about 60 companies to its Czech Coupon Invest

fund, but it did not buy the shares outright.

Interest in Epic's scheme has been especially strong among the elderly and the less well-off - those who have benefited least from the past four years' rapid transition to capitalism.

"Old people and people from the poorer regions tend to want to sell," he says. But they are not the only ones.

Epic's payment represents more than one month's average salary, and many voucher book holders prefer to have the cash now rather than wait until the shares are distributed. Others with shares

"We have a target, and we'll stop when we reach it. We don't want to be too small or too big as this reduces flexibility."

from the first privatisations have found it difficult to sell them, or they are still waiting to receive money promised by funds almost two years ago.

Many investors complain they have not received any dividends on their shares.

Epic has taken on extra staff to answer phone calls and handle transactions across the country at offices temporarily rented from Cedok, the Czech travel agency. "We have to move solicitors around the country to witness and register every contract. Our people are working day and night in three shifts just to process all this," Mr Goldschneider says.

Unlike individual investors, investment funds can afford to wait in the knowledge that they should easily recoup the costs of their investment. The average value of shares secured with a Kcs1,000 voucher book in the first privatisation wave is now Kcs20,000-£3,000.

Even after deducting Kcs8,000 for each voucher book, plus the costs of advertising and processing the transactions, Epic should not lose money.

Deadline set for aluminium accord

The European Union has set a January 28 deadline for the world's leading aluminium producing nations to reach agreement on a memorandum to reduce overcapacity, a spokesman said yesterday, Reuters reports from Brussels.

The decision follows four days of talks among trade representatives from Russia, Australia, Canada, the 12-nation EU as one body, Norway and the US.

The industry had noted at a conference last December over capacity of 1.5m-2m tonnes, an EU statement said. The memorandum would put in place "an

adjustment process by way of market forces that would reduce the imbalance."

A sharp increase in exports to the west by Russia following a collapse in its domestic demand is widely blamed for the current surplus, pushing prices to record lows.

The talks in Brussels have focused on how cuts of up to 2m tonnes a year of annual output could be shared among Russia and the world's other key producers. The US is expected to make anti-dumping charges against the Russian industry if no agreement is reached.

Recovery eludes German chemicals

By Christopher Parkes in Frankfurt

West German chemicals manufacturers' profits fell sharply for the fourth successive year in 1993, and there is no sign of a lasting recovery, according to Mr Gert Becker, president of the VCI industry association.

The world marketplace had undergone a fundamental change, and it was no longer possible to make certain products competitively in Germany, he said in a new year review.

Aggregate earnings tumbled 30 per cent in 1993, following a similar slump the previous year and falls of 20 and 25 per cent in 1991 and 1990 respectively.

Prices in Germany for raw materials, labour, energy, environmental protection, taxes and social welfare were far higher than in many other countries. But industry's influence over these cost factors was severely limited, said Mr Becker, who is also chairman of Degussa.

The indigenous industry could succeed only if it was able to bring innovations to market. That depended on government willingness to reduce bureaucracy and legal hindrances to investment, and popular acceptance of the need for scientific and technical progress.

Government health reforms led to a 4 per cent drop in drugs production last year, Mr Becker claimed, compared with an overall 5 per cent decline in the industry's volume output.

Deliveries of chemical fibres fell 12 per cent; producer prices were down 2.6 per cent; and industry-wide turnover from these products slipped 5.5 per cent to DM15.5bn (£80.5bn).

Production of basic inorganic chemicals fell 5 per cent while organic chemicals prices were 6 per cent lower than the previous year.

The industry shed almost 5 per cent of its workforce, cutting 29,000 jobs, said Mr Becker, adding that labour cuts would continue this year. Investment dropped to DM9.5bn from DM11.3bn in 1992, while spending on research and development was maintained at DM10.5bn.

Bosnians renew air-strike plea

By Laura Silber in Belgrade and agencies

Fighting increased throughout Bosnia at the weekend following the failure of talks last week on the former Yugoslav republic's partition.

Bosnian Muslims appealed for Nato air strikes against Serb gunners besieging Sarajevo, the capital.

Mr Haris Silajdzic, the Bosnian prime minister, said a mortar attack on Saturday, which six children died, was another Serb snub to a passive

world. In a letter to Mr Boutros Boutros Ghali, UN secretary-general, Mr Silajdzic said: "This act humiliates the international community, mocks the dignity of the United Nations and renders senseless all of our efforts to reach peace through negotiations."

Mr Warren Christopher, US secretary of state, indicated yesterday during a visit to Paris that there was uncertainty about the Nato strategy, despite the alliance renewing its pledge at a summit two weeks ago to use air strikes to

prevent strangulation of Sarajevo and UN "safe areas". Mr Christopher said he was confused about the French position towards Bosnia and had to confer anew with Britain and Germany. But he reaffirmed that the US remained committed to the Nato position.

Lieutenant-General Francis Briquembourg, the outgoing commander of the UN Protection Force in Bosnia, said yesterday UN forces were suffering a crisis of confidence as politicians were denying them the means

to do their job.

In Bosnia, three children were reported killed yesterday in a Muslim attack on the Croat-held part of Mostar.

Kieran Cooke adds from Kuala Lumpur: Dr Mahathir Mohamad, the Malaysian prime minister, has launched a stinging attack on western countries for their failure to act decisively in Bosnia.

During a visit to Malaysia by Bosnian President Alija Izetbegovic, Dr Mahathir said the west's policies amounted to hypocrisy at its worst.

West's resolve dissolves into uncertainty

By Robert Mauthner, Diplomatic Editor

President Bill Clinton of the US was right to warn his Nato partners at their recent summit in Brussels not to make threats about military action in Bosnia which were never likely to be carried out. The events of the last few days have undermined precisely what he was talking about.

In spite of UN Security Council and Nato resolutions on the use of air strikes - Nato leaders made a solemn declaration on the subject less than two weeks ago - there are no indications that these are imminent. Indeed, at least one of the countries with peacekeeping troops on the ground in Bosnia - Canada - has already made clear its opposition to such strikes. The determination of others is also in doubt.

Yet the Nato declaration on the subject was couched in the clearest possible terms. "We reaffirm our readiness, under the authority of the United Nations Security Council and in accordance with the alliance decisions on August 2 and 9 1993, to carry out air strikes in order to prevent the strangulation of Sarajevo, the safe areas and other threatened areas in Bosnia-Herzegovina," it said.

After last Saturday's attack by Bosnian Serb gunners on a district of Sarajevo only a few hundred metres from UN peacekeeping force headquarters, in which six children were killed, Mr Haris Silajdzic, the Bosnian government's Mos-

lem prime minister, appears fully justified in making his latest appeal for Nato air strikes in Bosnia. Serb positions, Sarajevo, after all, has been designated by the UN as a "safe area," a status which has never been respected by the Bosnian Serbs.

After his unseemly squabbles with General Jean Cot, whom he obliged to retire as French commander of UN forces in Bosnia, Mr Boutros Boutros Ghali, UN secretary-general, has at last confirmed he is ready to order air strikes in Bosnia if asked to do so by his special envoy in Yugoslavia, Mr Yasushi Akashi. But it seems doubtful, to say the least, whether he is prepared to authorise such bombardments other than to allow Canada peacekeeping troops in the eastern Moslem enclave of Srebrenica to be relieved.

To confuse the situation even further, the main countries with peacekeeping troops on the ground in Bosnia - France, Britain, Spain and Canada - have adopted self-contradictory positions on the subject. On the one hand they have put their names to the Nato declaration; on the other they have always opposed military action which could put the lives of their own troops in danger.

That situation would be clarified if, as Britain and France have indicated, they withdraw their troops at the end of spring. But what, only a few days ago, appeared to be almost a foregone conclusion,



A young Sarajevo boy injured in Saturday's mortar attack

has once again become questionable.

Both countries have made it clear that the decision to go or stay would not be taken unilaterally but was one for all the nations participating in the UN Protection Force (Unprofor) to take.

Furthermore, Mr Douglas Hurd, the British foreign secretary, seems to be in greater doubt about the wisdom of withdrawal after his visit to British troops in central Bosnia at the end of last week than he was before.

The foreign secretary said that the UN aid effort in a region contested by Bosnian Muslims and Croats was working better than was generally realised. A record six aid convoys had got through two days earlier.

He added that British troops believed they should stay, not only because aid convoys were getting through, but because there was a strong feeling in the region that if Unprofor troops were to leave "the savagery of the war would be substantially worse".

Hardly surprising, therefore, that a decision on whether to withdraw British troops is not imminent.

With the UN, Nato and their main member nations in a state of suspended animation, and the Geneva peace talks as deadlocked as they ever were, the prospects for any further international action in Bosnia remain decidedly dim.

France goes on the defence offensive

France is rapidly adopting a more international approach to defence, in a revolution quieter in tone than the changes wrought to its commercial policy by the Gatt trade negotiations but more far-reaching in substance.

Indeed, French officials now fear that their European allies are taking too parochial a view of the continent's security needs, in Bosnia and elsewhere. This is a far cry from the go-it-alone tendency that has characterised French defence policy for a generation since President de Gaulle pulled France out of Nato's integrated military command in 1966.

The catalyst for the new policy was this month's Nato summit, which crystallised the post-cold war shift of responsibility for European defence from the US towards Europe. The new policy will be enshrined in a French defence white paper due to be published next month, as the doctrinal basis for the country's 1995-2000 defence programme to be presented to parliament later this year.

"The best Nato summit ever, from France's viewpoint," was how a senior Elysée official summed up the Brussels meeting.

The summit endorsed the Maas-

David Buchan on the quiet revolution which sees Paris breaking away from its go-it-alone tradition

tricht treaty's concept of a European defence identity. It agreed that Nato assets could be used by the Western European Union defence organisation in purely European operations and proposed the setting up of "combined joint task forces". This piece of military gobbledegook is designed as political cover for bringing into Nato planning a France that refuses formally to re-enter the alliance's regular integrated command.

"We cannot put the 1996 decision in question," Mr François Léotard, France's defence minister, said wryly.

"It is now part of our military/cultural heritage."

But France's satisfaction at Nato's green light for European defence is tempered by its gnawing worry at the sharp decline of interest among many European countries on matters military. Mr Léotard asked recently whether "the concept of defence which is taking root in northern Europe" - neutrality in Scandinavia, and lack of interest in countries like Germany and the

Netherlands - "does not threaten to lead the whole of Europe into inaction, then to disappearance".

The decline can be measured in defence budgets. A senior French official notes, with as much anxiety about German and British defence cuts as pride in France's sustained spending, that "of the 1994 military equipment budgets of the nine WEU countries, France accounts for 42 per cent of the total."

Despite all their past investment on defence, a majority of the French people still do not seem anxious to cash in their peace dividend on the ending of the cold war. Indeed, the forthcoming white paper will tell them that their security is still at risk - though from different dangers which require closer co-operation with fellow Europeans.

A current draft of the white paper, the first for 20 years, argues that "defence of France's vital interests can be envisaged with Britain and Germany", that this co-operation can include discussions on nuclear weapons, and that France's military

action will be increasingly directed at prevention of direct/indirect threats to its wider strategic interests, short of full-scale war.

As a result, Mr Léotard argues that the French themselves must learn to think "geo-strategically", as Americans have long done, and that "having been a net importer (from the US) of security during the cold war, Europe must now have the capacity to export security."

This, says the white paper, involves remedying France's weaknesses in intelligence gathering, force projection and logistic back-up. "These weaknesses were acceptable, even deliberate in an earlier period... but they are glaring and hardly tolerable when the international situation and our political commitments require long-range intervention by our forces." In all arms programmes, as well as force deployments, France must co-operate more with its European partners, the paper says, while not letting its overall military spend-

ing fall below 3.1 per cent of national output.

Much of the white paper just elevates to the level of principle what France has recently been doing in practice - setting up the Eurocorps and moving towards Nato inside Europe, and contributing in Bosnia, Somalia and Cambodia more troops to UN peacekeeping than any other country.

But will France's famous national consensus on defence hold if this defence is defined in more international terms?

Defence policy has been popular in France precisely because it has been relatively self-centred and because allies have been regarded in the last (nuclear) resort as unreliable. Will French soldiers really be any readier than others to fight for ill-defined causes in Europe's name?

Similarly, high French budgets have been accepted, precisely because, in the words of top French officer, "more than 90 per cent is spent at home - a form of industrial policy". Are French taxpayers ready to see more of their money spent on German or British weapons? These are the contradictions that France's new co-operative stance on defence will bring.



Léotard: military/cultural heritage

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National Guard puts up tents and kitchens for 14,000 as concerns over health care grow

Record aid programme pledged for LA

By Louise Kehoe in San Francisco

US government officials mobilised "the biggest urban aid programme in US history" over the weekend to help victims of the Los Angeles earthquake.

The National Guard erected tents and kitchens in parks and playing fields to shelter up to 14,000 homeless people and those afraid to return to their damaged dwellings. Red Cross shelters are housing a further 6,000 people and feeding another 3,000.

Health authorities sent teams of doctors and nurses to makeshift

camps over the weekend as hospitals reported a growing number of exposure-related illnesses.

With many doctors' offices and chemists closed, there is growing concern about health care. Eighteen hospitals in the region have closed all or part of their facilities because of damage and staff shortages.

President Bill Clinton announced the release of \$283m to help disaster relief efforts, bringing the total amount of federal aid to \$639m in funds for low-interest loans, \$41m for emergency highway repairs and \$143m in emergency grant funds. This

week, an emergency appropriations bill is expected to be presented to Congress seeking additional spending for earthquake repairs.

"Los Angeles will come back. Together with the people of Los Angeles, we'll help to make that happen," the president said in his weekly radio address on Saturday.

By early Saturday over 13,000 people had applied for financial assistance at government emergency aid centres or by telephone. The Federal Emergency Management Agency, which last week came under sharp criticism for its inadequate response,

said that it would open six additional centres where earthquake victims can apply for housing grants and low-interest loans.

Mr Richard Riley, education secretary, said his department "is fully committed to making sure that we do everything necessary to help restore the Los Angeles schools".

Damage from the earthquake is more widespread than initially thought, officials said. South Central Los Angeles, the site of riots in 1992, has sustained substantial damage. The worst hit areas are to the north, in the San Fernando Valley, and to

the west, in Santa Monica. The central business district of Los Angeles emerged largely unscathed.

Seismic experts studying the uneven pattern of damage from last Monday's earthquake, which measured 6.6 on the Richter scale, now believe that shock waves bounced off the mountains surrounding the San Fernando Valley, exacerbating the impact on certain areas and reducing it in others.

Ground forces equal to the force of gravity, far higher than might be expected from an earthquake of this size, were recorded in some areas.



A one-year-old Los Angeles child looks out of her makeshift bedroom in the boot of a car over the weekend.

US carmakers see off foreign competitors

By Kevin Done, Motor Industry Correspondent

General Motors, Ford and Chrysler, the big three US carmakers, increased their sales of cars and light trucks in the US by 10.5 per cent last year, gaining market share at the expense of both Japanese and European vehicle producers.

Helped by strong performances by Chrysler and Ford, the big three captured 73.9 per cent of the US light vehicle market, up from 72.2 per cent a year earlier.

The total light vehicle market rose 8 per cent to 13.92m from 12.89m a year earlier, the highest level since 1989. Sales of new cars rose 3.7 per cent to 8.63m, but the strongest growth came from the light truck sector - pickups, four-wheel drive sport/utility vehicles and multi-purpose vehicles - where sales climbed 15.5 per cent to 5.4m and accounted for 39 per cent of the total light vehicle market.

The share of imported cars and light trucks fell to 16 per cent from 18.6 per cent.

Japanese vehicle makers have lost market share for the last two years, falling to 23.1 per cent from 24.3 per cent in 1992 and 25.7 per cent in 1991. Honda sales fell by 6.8 per cent but Nissan, the second largest Japanese carmaker, succeeded in reversing several years of US decline by lifting sales 17.2 per cent.

The fortunes of European carmakers in the US market have been in decline for several years and their light vehicle market share fell again to only 2.3 per cent.

Several European carmakers have abandoned the US market in recent years, most recently

Peugeot and the Rover group's Sterling cars operation.

Of the survivors Alfa Romeo, part of the Fiat group of Italy, suffered a 53.1 per cent fall in sales to only 1,325.

The Volkswagen group, the only European vehicle maker remaining in the US market, has also suffered a drastic fall with total light vehicle sales dropping by 31.5 per cent to 62,064.

Sales by the VW brand fell 34.7 per cent to 49,536, while sales by its Audi executive car division dropped 15.1 per cent to 12,528.

BMW of Germany has gained ground, however, with an aggressive pricing policy and was the leading European importer in the US after boosting sales last year by 18.8 per cent to 78,010.

Jaguar, the UK luxury car subsidiary of Ford of the US, has also halted its decline, increasing US sales by 46.7 per cent to 13,734.

Forced by rising losses to abandon the US car market a couple of years ago, the Rover group has been enjoying increasing success with its Land Rover utility vehicles, which increased sales last year by 15.9 per cent to 4,997. The company is aiming to quadruple US sales in the next couple of years with the launch later this year of the Discovery range.

Although Japanese vehicle makers lost market share last year, they continue to increase North American production.

The output of cars and light trucks in North America in Japanese plants and at Japanese/US joint ventures managed by Japanese producers rose last year by 6.6 per cent to 2.15m.

Clinton backs California over tax

By George Graham in Washington

The US Justice Department has kept President Bill Clinton's campaign promise to California by backing the state in its 16-year-old tax case against Barclays Bank of the UK.

In a brief filed last week with the Supreme Court, Mr Drew Days, the solicitor general, argues that even if the US federal government has since objected to California's unitary system of taxation, in 1977, when the Barclays dispute began, it had merely expressed

a preference for the internationally recognised arm's-length tax method - not enough to throw out the unitary method on constitutional grounds.

If California were to lose the case, it would have to pay around \$400m of refunds to Barclays and other foreign-owned companies which have disputed their unitary tax assessments. It could face another \$1.3bn of refunds in a related case brought by Colgate-Palmolive, the household products group, involving US-based multinationals.

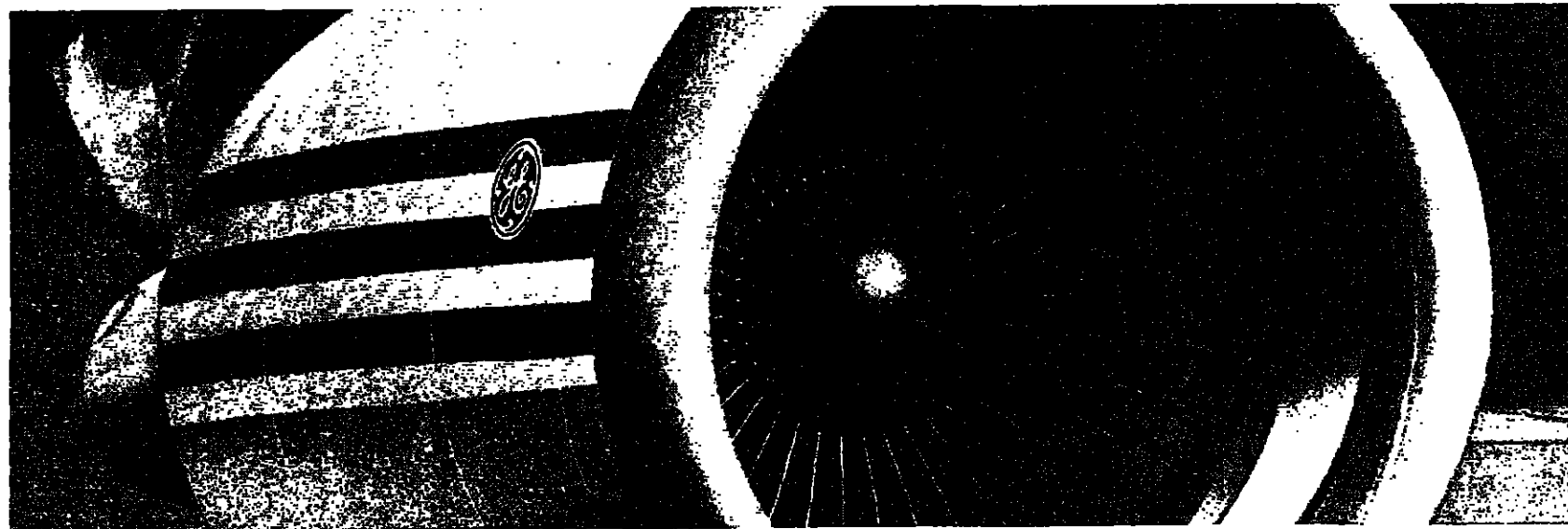
California would also lose another \$2.4bn of taxes it has claimed but not yet collected under the unitary method, in which companies may be asked to pay taxes on a percentage of their parent group's worldwide income, rather than only on income they have earned in California.

The Justice Department opinion is particularly important because the case against the unitary method hinges on the constitutional argument that it interferes with the federal government's powers over foreign trade.

As a fallback position, Mr Days argues that even if the Supreme Court decided in favour of Barclays, it should dismiss Colgate's claim; and even if it ruled against California in both cases, it should not order refunds, as it has already changed its tax law in a way that meets the complaints made against the unitary method by foreign governments.

Previous administrations have argued strongly against California but Mr Clinton had promised to back the state if elected.

TWO GIANTS.



These days the Welsh Dragon is a real high flyer since two international giants of the aero engineering industry chose Wales.

British Airways has its new engineering base at Cardiff Airport and recently General Electric (USA) has moved to nearby Nantgarw, where they service aircraft engines for famous names like CFMI, Rolls Royce and Pratt & Whitney.

With more than a little help from the Welsh Development Agency, both companies were not merely able to find the right site,

but also the right people from Wales' skilled and flexible workforce.

The WDA has also assisted in the development of a local supplier infrastructure to ensure vital components are always at hand.

To get your business off the ground, put the Welsh Advantage to your advantage. Call the team at Welsh Development International on 0222 666682, by fax on 0222 668279 or write to Welsh Development International, Welsh Development Agency, Pearl House, Greyfriars Road, Cardiff CF1 3XX.

ONE DRAGON.



THE WELSH ADVANTAGE.

NOTICE TO SHAREHOLDERS

KOBE STEEL, LTD.

The English version of the interim report for the half-year ended 30th September 1993 has been published and may be obtained from:

Kobe Steel Europe Ltd.

Alton House, 174/177 High Holborn, London WC1V 7AA
Tel: (071) 836-1235/Fax: (071) 240-7460

US AUTO INDUSTRY January-December 1993				
	Volume (Units)	Volume Change (%)	Share (%) Jan-Dec 93	Share (%) Jan-Dec 92
US CAR SALES	6,518,000	+3.7	100.0	100.0
Imports	1,844,000	-7.5	21.7	24.3
Japanese makes	2,481,000	+0.4	25.1	30.1
-of which Nissan-built	1,258,000	+0.0	14.9	14.1
Japanese derived	2,689,000	+0.2	34.0	35.2
European makes	308,000	-6.9	3.8	4.0
US CAR SALES BY MANUFACTURER:				
General Motors	2,908,000	+2.3	34.2	34.6
Ford	1,878,000	+5.7	22.1	21.6
Chrysler	834,000	+22.7	9.8	8.3
Toyota/Lexus	742,000	-2.4	8.7	9.3
Honda/Acura	716,000	-6.8	8.4	9.4
Nissan/Infiniti	482,000	+16.5	5.8	5.0
Mazda	260,000	+4.7	3.1	3.0
Mitsubishi	168,000	+7.8	2.0	1.9
Hyundai	109,000	+0.2	1.5	1.3
BMW	78,000	+18.8	0.9	0.8
Volvo	73,000	+7.4	0.9	0.8
Mercedes-Benz	62,000	-2.2	0.7	0.9
Volkswagen/Audi	56,000	-35.8	0.7	1.1
Subaru	19,000	-29.0	0.2	0.3
Jaguar (Ford)	13,000	+46.7	0.1	0.1
Porsche	3,700	-9.4	0.0	0.0
Alfa Romeo (Fiat)	1,300	-53.1	0.0	0.0
US LIGHT TRUCK SALES	5,398,000	+16.5	100.0	100.0
Imports	389,000	-2.9	7.2	8.8
US CAR & LIGHT TRUCK SALES	13,917,000	+8.0	100.0	100.0
General Motors	4,667,000	+6.1	33.5	34.1
Ford	3,582,000	+11.6	26.6	24.8
Chrysler	2,048,000	+19.5	14.7	13.3
Japanese makes	3,212,000	+2.4	23.1	24.3
Toyota/Lexus	1,033,000	+0.9	7.4	7.9
Nissan/Infiniti	688,000	+17.2	4.9	4.5
CANADA CAR & LT TRUCK SALES	1,171,000	-3.3	100.0	100.0
NORTH AMERICAN CAR PRODUCTION	7,314,000	+9.3	100.0	100.0
-of which Japanese-built	1,798,000	+6.7	24.8	25.2
NORTH AMERICAN CAR & TRUCK PRODUCTION	13,095,000	+11.5	100.0	100.0
-of which US	10,854,000	+11.1	82.9	83.1
-of which Canada	2,241,000	+13.2	17.1	16.9
-of which Japanese	2,150,000	+8.6	16.4	17.2

Includes Japanese makes plus Japanese derived cars sold under GM, Ford & Chrysler badges, imports and US-built.
*GM excludes Subaru, Ford excludes Jaguar.
†Includes US/Japanese joint ventures managed by Japanese producers.
‡Includes medium and heavy trucks.
Source: Automotive News.

ANC looks at how to pay for its programmes

Patti Waldmeir reports on the ambitious economic goals of South Africa's probable new rulers

Now for the hard part. As the African National Congress stands on the threshold of the political kingdom in South Africa, ANC leaders at the weekend launched a new and more difficult battle: the struggle for economic power without which political rights are meaningless.

"No political democracy can survive and flourish if the mass of our people remain in poverty, without land, without tangible prospects for a better life," says the forward to the ANC's draft Reconstruction and Development Programme (RDP), endorsed at a weekend conference of ANC allies. "We must not perpetuate the separation of our society into a 'first world' and a 'third world' - another disguised way of preserving apartheid."

will be built, 2.5m houses electrified, clean water, sanitation and health care provided for all. But financing is at best vague, at worst unrealistic. Nothing is costed, no priorities are set, all options (including the perennial threat of nationalisation) are left open.

However, the programme provides the clearest indication yet of the policies of the new government, which is likely to be dominated by the ANC. The document conveys caution about the speed of implementation, as well as a commitment to fiscal discipline and the

need to maintain macroeconomic balance, which white South Africans and foreign investors will find reassuring.

"We must finance the RDP in ways that do not cause undue inflation or balance of payments difficulties," it says, adding that "the vast bulk of the RDP will be financed by existing resources organised, rationalised and directed within RDP guidelines". The current budget deficit of 6 per cent of gross domestic product would not be exceeded and the overall tax burden, as a percentage of GDP, would remain

the same "until strong growth is achieved". The commitment to a budget deficit not exceeding 6 per cent of GDP is further enshrined in a letter of intent sent last December to the International Monetary Fund and signed by the ANC.

Still, Mr Trevor Manuel, ANC economics head, makes clear the 6 per cent ceiling will not apply beyond the 1994-95 budget - he says it would be preposterous to assume RDP can be funded without borrowing more - and ANC plans for "increasing the efficiency of consumption expenditure and

improving the revenue recovery capacities of government" display a touching faith in the powers of the new broom.

Mr Manuel points out that a budget of \$49bn (£27m) for a nation of 40m people is already not small; and World Bank figures show South Africa already spends more than twice as much on education, as a percentage of GDP (7.3 per cent in 1993), as any other nation in its income bracket, and more even than high-income countries.

On health, only Hungary and the UK spent more proportion-

ately than South Africa; Sweden spent only a tenth as much.

Most of this money goes to fund the bloated bureaucracy, which can only increase in the first years of an ANC government: nine new provincial administrations will be set up under the constitution; the RDP proposes creating a host of state or parastatal bodies - a national housing bank, an implementation commission, all the apparatus of the centrally planned state - and affirmative action will swell the civil service further. It is hard

to accept the ANC's optimism about vanquishing corruption and inefficiency overnight.

A few months in power will probably reveal to the ANC all the contradictions inherent in its plan: it calls for "people's power" to be exercised at all levels, while simultaneously demanding a high degree of central planning; and it proposes huge spending increases without concomitant rises in revenue.

The document ponders a host of new taxes: "reconstruction levies" in the form of taxes on capital transfers, land and luxury goods; a new national insurance charge; and privately, ANC leaders are still debating a specific wealth tax as a levy on assets.

"When the crunch comes, which way will they jump? Will they slow implementation, or raise taxes?" asks one businessman, who notes that ANC leaders are at best reluctant converts to market economics. Most ANC leaders still pursue a moral approach to economic questions, arguing "it must be done, it should be done, therefore it will be done", says another businessman.

ECONOMICS CHIEF LEARNS NOT TO UPSET THE MARKETS

By Patti Waldmeir

"Every time he opens his mouth, he sounds more like [Finance Minister] Derek Keys", that is the South African business community's idea of a compliment, its way of saying that African National Congress economics chief Trevor Manuel increasingly tailors his economic rhetoric to the hard South African realities stressed by Mr Keys.

Mr Manuel is a politician, not a

technocrat. Mr Keys pretends to be the opposite, though his political skills are not inconsiderable. But in the two years since he was brought in as political head of the ANC economics department, the 37-year-old Mr Manuel has rapidly scaled a steep learning curve in economic theory.

Bombarded by economic home truths from business and international financial institutions, Mr Manuel has avoided saying things which increase the blood pressure of businessmen

and investors and sink prices on the Johannesburg Stock Exchange.

In a weekend interview, he opposed the imposition of a wealth tax - an idea which remains popular among many ANC leaders - preferring instead a "reconstruction bond" which would attract voluntary capital from domestic and overseas sources, as well as measures to compel life offices to commit a percentage of assets to "socially desirable investments"; he stressed the need to proceed carefully

with any tax increases, noting "if every time you need money you raise taxes, you can't govern".

But the firmness of his commitment to maintaining fiscal discipline and macroeconomic balance remains to be tested. In the days before the burden of political office descends, Mr Manuel knows he can please the markets without disappointing the electorate. All the hardest choices can be avoided until forced on the ANC by the pressures of government.

N Korea backing away from N-inspection deal

By John Burton in Seoul

North Korea appears to be backing away from a promise made to the US agreeing in principle to full international inspections of its seven declared nuclear facilities.

Negotiations between North Korea and the International Atomic Energy Agency on these inspections have reached an impasse after Pyongyang said it would bar full access to a 5MW reactor and a "radiochemical laboratory", at the Yongbyon nuclear complex.

North Korea said at the weekend it had agreed in recent talks with the US to allow inspections that would guarantee "the continuity of [nuclear] safeguards". But it was under no obligation to accept full IAEA inspections, since it had

only "suspended temporarily" its March 1993 decision to withdraw from the nuclear non-proliferation treaty.

The IAEA wants to inspect the reactor's fuel rods and substances used in the radiochemical laboratory to guarantee that the North has not diverted plutonium for its suspected nuclear weapons programme.

But North Korea will only permit the replacement of film and batteries for surveillance cameras at these sites. The IAEA has refused the offer, stating that the North must submit to the full range of IAEA inspections initially accepted in 1992.

North Korea claimed it agreed to new, limited IAEA inspections in return for the promised suspension of this year's US-South Korean "Team Spirit" military exercise, which has not yet been announced.

Pyongyang appears to be toughening its stance on regular IAEA inspections of its declared nuclear facilities, explaining that they will only be allowed after the US holds another round of high-level talks with the North in an attempt to improve relations.

The US has rejected that demand, saying it will discuss improved ties only if the North permits regular IAEA inspections and renews talks with South Korea on denuclearisation.

The US has indicated that if North Korea fails to reach an inspection accord with the IAEA, it will ask the UN Security Council to impose sanctions on Pyongyang. China and Japan are urging caution in transferring the issue to the UN since it could increase tensions in the Korean peninsula.



Alan Griffiths: a rising star

Australian minister quits over funds row

By Nikki Tait

Mr Paul Keating, Australia's prime minister, has lost his second senior minister in as many months. Mr Alan Griffiths, minister for industry, technology and regional development, resigned at the weekend amid allegations that party funds and electoral office facilities had been misused in a private business interest.

Mr Keating said in a statement that Mr Griffiths had informed him of "serious concerns" about the possible misuse of funds, but added: "He told me that he had no involvement at all in any of these mat-

ters and that his lawyers are satisfied that on the material presented to them... in their opinion he is not guilty of any wrongdoing or impropriety."

The departure of Mr Griffiths comes only a month after Mr Dawkins, the treasurer, announced his intention to resign - and ultimately to leave politics - for personal reasons. Mr Griffiths, aged 41, has been viewed as one of the Labor party's rising stars.

The allegations against Mr Griffiths have been made by Mrs Lynette Harrison, who operated a sandwich shop in partnership with Mr Griffiths.

Investment in Britain rises tenfold

By Nikki Tait in Sydney

Australian investment in Britain has risen more than tenfold, to almost \$18bn (\$1bn) since Australia lifted exchange controls a decade ago.

This makes Britain the biggest single offshore home for Australian investment. According to a report by the Allen Consulting Group, "Australia sends about 33 per cent of its offshore direct investment to Britain, which is eight times more than could be expected from the size of the UK economy." Australia is the fourth largest overseas investor in the UK.

The report also finds Britain is the second largest investor in Australia, although only 7 per cent of its offshore direct investment goes in this direction.

The strength of investment ties is surprising, given the shift in Australian trade flows towards Asia and Britain's, towards Europe. Around 60 per cent of Australia's trade is now conducted with Asia, while around 56 per cent of British exports go to the European Union countries.

The report points out that the wave of Australian investment in Britain over the past decade is largely accounted for by 16 companies - among

them, Mr Rupert Murdoch's News Corporation, the Australian Mutual Provident Society, which owns the Pearl and London Life insurance companies, and Foster's, the brewing company which takes in Courage.

But it contradicts the widespread impression that much of this investment took place occurred in the mid- to late-1980s, when the last wave of Australian entrepreneurs was at full power. The report says some \$46.5bn was invested over the past five years, and cites a number of companies - such as Amcor, the paper and packaging group - which has made an initial investment in the UK, as the first step

to a European operation. The report suggests a range of reasons for Australia's investment interest in the UK, including cultural, regulatory and language similarities, and the opportunity for expansion into other European markets.

It also says that some expansion-minded companies felt more comfortable operating in the UK than in the highly competitive US environment. "One Australian manufacturing company commented that in Britain if you can be the low cost/best quality producer you will win market share, but in the US you may just bleed red ink as competitors keep down prices to hold market share."

HK democracy blow for Patten

By Simon Holberton in Hong Kong

Governor Chris Patten's chances of getting the so-called non-controversial parts of his democracy legislation through Hong Kong's legislature narrowed at the weekend when the Legislative Council's biggest political party said it would seek to amend his plans.

The Liberal party, a 15-member coalition of conservative politicians in the 60-strong council, said that in the interests of getting Britain and China back to the negotiating table it would propose deleting all reference to next year's Legco polls from a bill working its way through the council. But it would support the governor's proposals for forthcoming

local government elections.

If the Liberals' amendment succeeds Mr Patten would be placed in a virtually untenable position. One of the reasons talks between Britain and China broke down late last year was the UK refusal to consider the colony's local government elections separately from those for Legco.

Observer, Page 11

CONTRACTS & TENDERS

PLUNA

URUGUAY'S NATIONAL AIR CARRIER INTERNATIONAL BID

As part of Uruguay's privatisation process, the Government has decided to form a joint venture between the state carrier (PLUNA) and private investors, for the purpose of exploiting air transport together with tourist services akin or complementary to it.

PLUNA has landing rights at every major Latin American airport together with Miami (USA) and Madrid (Spain).

The private partner will have the majority of the joint ventures stock.

Interested carriers can get the bidding papers at the following address:

PLUNA
Colonia 1013, 10th Floor,
Montevideo, Uruguay

Bids will be accepted until March 4th, 1994, 3:00 p.m. (local time).

For further information please contact. Mr Julio Martinez tel: (598-2) 92 02 31 or fax: (598-2) 91 35 59

INTERNATIONAL PRESS REVIEW

Japan

The Japanese press pinned the blame on the Social Democratic party for last Friday's unexpected defeat of the political reform bill in the upper house.

Many papers carried front-page pictures of SDP defectors brandishing green opposition ballots, while the Asahi Shimbun, the left-leaning daily, ran a picture of Mr Tomiichi Murayama, party leader, bowing deeply in apology to Mr Ichiro Ozawa, who masterminded the political reform offensive.

The Asahi, however, also pointed a finger at the Liberal Democratic party, the leading opposition group, claiming in its editorial that the scandal-ridden LDP rule created the need for political reform, and it was the LDP which failed to implement reform while in power.

The leading national dailies also managed a jibe at Mr Ozawa, for whom they have had little love ever since he lashed out at two leading national papers for unfavourable reports. The Mainichi Shimbun called the bill's defeat a rejection by the upper house of "Ozawa GHO's steamroller tactics".

With only a week to work out a compromise reform bill, pessimism prevailed in the papers' predictions on the fate of reform.

The Yomiuri Shimbun, the conservative daily, urged against an agreement where an anti-corruption bill is separated from electoral reform - a plan suggested by LDP elders and some SDP members - calling it a "deception" by politicians trying to save their own necks. Fears were also raised over the economy. The Nihon



Ichiro Ozawa: jibes from the national press

Keizai Shimbun, the business daily, warned against "anarchy on the economic front", also predicting a delay in tax reform and confusion among economic planners and the financial markets.

Most of the press were vague on the fate of Mr Morihiro Hosokawa, prime minister, who pledged to resign if political reform failed to pass through parliament. The dailies carried comments by the LDP's Mr Michio Watanabe, former foreign minister, that he would not pursue Mr Hosokawa's resignation.

Even the sports tabloids provided some political analysis. Tokyo Sports, known for its lurid headlines, explained that the turmoil over political reform was just another version of the popular sports games between rivals Keio and Waseda (Japan's

version of Oxford and Cambridge), dubbing it a match between Mr Ozawa, a Keio graduate, and LDP leader Mr Yoshiro Kono, a Waseda man.

United States

Great disasters are a regular occurrence in southern California and the region's main newspaper, the Los Angeles Times, is equipped to deal with them.

After winning a Pulitzer prize for its coverage of the 1992 riots in Los Angeles, the LA Times produced the same sort of blanket reporting after last week's earthquake.

Even the paper's slimline east coast edition - a model of compactness and clarity which some Californian readers beg the company to send them in place of the advertisement-laden local edition - offered seven complete pages on the "Disaster before Dawn" and its aftermath.

Besides one editorial and opinions from outside contributors, the LA Times contained articles by 18 bylined reporters, and gave credit for their contributions to another 132 people on the editorial staff and 24 special correspondents.

In its editorial, the LA Times remained strictly practical, concentrating on the implications of the quake for the region's freeway and rail networks.

From the other side of the country, the New York Times editorialists were unable to get so close to the ground; instead, they mused weightily on "the precariousness of human life on the edge of nature's immense, imponderable forces".

But for most people, the earthquake was a television

event, with the first reports coming on the Monday morning news shows. Even the venerable Mr Walter Cronkite, fortuitously in Los Angeles on personal business, made a brief report.

His successor as CBS's anchor, Mr Dan Rather, is usually so obsessed with natural disasters - especially hurricanes - that he can be counted on to turn up. This time, however, he did not broadcast from Los Angeles until Tuesday, beaten to the draw by Mr Peter Jennings of ABC and Mr Tom Brokaw of CBS.

Burma

There is something quaint about The New Light of Myanmar, the official newspaper of the Burmese military junta.

The absence of real domestic news or debate, the plethora of irrelevant foreign stories taken from news agencies ("With 80 foreign news reports" the paper boasted on Friday), and the bizarre, empty formulas used to describe the activities of government ministers have the flavour of the press in a Soviet satellite state during the 1970s.

Previously called The Working People's Daily, the NLM is required reading for students of Burma, just as Pravda was scrutinised by Kremlin-watchers in the heyday of Soviet communism.

Rangoon diplomats are always alert for clues to the thinking of Burma's secretive rulers: Why was such and such a general not shown in the photograph on page four? Why was this speech given more prominence than that speech?

One big news item last week was the latest session of a national convention, whose members are being coerced

Lesotho soldiers fight in capital

Heavily armed soldiers yesterday tried to storm a rival barracks in street fighting between army factions in the Lesotho capital, Baser reports from Maseru.

"There have been several civilian casualties," the wounded have been taken to hospital, according to a western diplomat. He did not know if any civilians had been killed. Diplomats said about 600 soldiers from Maseru barracks on the outskirts of the city attacked rivals at a smaller barracks in Maseru. There were also reports of further action in the south near the airport.

State radio advised people to stay off the streets and not to attempt to drive from the city and the international airport south of the city.

Malaysia aims to cut liquidity

Bank Negara, Malaysia's central bank, has announced new measures designed to prevent a build-up of liquidity in the country's financial system and to combat further inflationary pressures, writes Kieran Cooke in Kuala Lumpur.

From today residents will no longer be able to sell short-term monetary instruments to non-residents, including treasury bills and government securities. From the beginning of next month commercial banks will also have to lodge with Bank Negara all funds in ringgit, the Malaysian dollar, held by foreign institutions in non-interest-bearing accounts.

Large amounts of funds have been attracted into Malaysia in recent months, drawn by the country's strong economic performance and soaring stock market.

Bank Negara says it is determined to ensure that short-term speculative funds do not destabilise the economy.

Libya reduces budget forecast

Libya has sharply cut its budget forecast for 1994 because of difficulties caused by UN sanctions, Baser reports.

"The cut amounts to several billions [dollars]," Prime Minister Abouzar Omar Dourrah said yesterday after the commission of the General People's Congress adopted the draft budget. Figures for the new budget were not made available.

"As a result of the unjust UN sanctions we have been forced to cut our expenses in several domains such as education and health," said Mr Dourrah. The budget was set in such a way that Libya would rely less on oil, its main source of revenue, he said.

by the junta into drafting a new, pro-military constitution.

But more promising was the diplomats noted - was given to daily mass rallies by the Union Solidarity and Development Association (Uda), a group founded four months ago to support the junta and probably to become its future political wing.

Reports of these rallies are reassuringly predictable. Columns of people march to a sports ground; a leader addresses the rally and condemns the "wily tricks of neo-colonialists"; the people unanimously approve six motions (including one in support of the forthcoming constitution); the "mammoth gathering" then closes with either "thunderous applause", or, more usually, "tumultuous chanting of slogans"; people then depart in an orderly manner.

The NLM blithely ignores the reluctance with which people attend these rallies (some are civil servants and schoolchildren bussed to the site) and the guerrilla methods used by Burmese citizens to express displeasure with Uda functions (by cheering in the wrong places, and crowding at the exits to get out before the end).

With Orwellian audacity, the NLM last week published an editorial in praise of truth. "As always," it said, "truth shall prevail, and when more of our brethren realise who it is that drives a wedge between us [the editorial does not say who is driving wedges] and how much we must together resist such dastardly acts, we will come out the victor. In truth we trust." Up to a point, Lord Copper.

Contributions from Erika Toranzo in Tokyo, George Graham in Washington and Victor Mallet in Rangoon.

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Clarke hits back over Labour jibes on tax

By David Owen and Alison Smith

The Conservative party's credentials as the party of low taxation were under attack at Westminster last night.

This followed the emergence of damaging figures showing that a typical family will next year pay proportionately more in direct and indirect tax than when Labour was last in power.

The opposition parties pounced on the disclosure,

with Labour accusing the government of making the "biggest tax demand in history".

But Mr Kenneth Clarke, chancellor of the exchequer, hit back, questioning the legitimacy of the comparison and arguing that taxes would always be lower under a Conservative government than under Labour in any given year.

At the centre of the row, which erupted just ahead of tomorrow's crucial House of

Commons debate on the finance bill, was the Treasury's disclosure that a typical family will pay 35 per cent of its income in direct and indirect tax in 1994-95. This would compare with 32.2 per cent under Labour in 1978-79.

Labour produced further government figures yesterday showing that the proportion of gross domestic product taken by non-North Sea taxes, social security contributions and local authority taxes would rise to 38½ per cent in 1994-95.

This would outstrip the 34½ per cent taken in 1978-79 when Labour was last in government.

Tory MPs are now braced to come under pressure from their constituents over the heavier tax burden once people realise how much they are paying. This would be as a result either of being informed by the Inland Revenue or simply from seeing deductions from their pay in April itself.

Breakfast with Frost, Mr Clarke insisted that comparing current levels of taxation with the last year of a Labour government was "false".

He said: "If you had a Labour chancellor now, taxes would be much, much higher."

But Mr Gordon Brown, shadow chancellor, accused his opposite number of "tax deception".

"The facts are incontrovertible," Mr Brown said. "Tax is higher than under Labour. Because the Tories will never tell the truth about their tax bills, the country will never trust them on tax again."

Mr Alan Beith, the Liberal Democrat Treasury spokesman, said that forthcoming tax increases were "so large they have put the recovery at risk".

Britain in brief



Executive pay rises by 5.7%

Britain's executives won average pay and fringe benefit increases worth 5.7 per cent last year, compared with average increases of 3 per cent for the workforce as a whole.

The rise is nearly four times the increase public sector workers secured in 1993 under the UK government's 1.5 per cent pay policy.

The size of executive pay rises, disclosed in a survey of more than 400 companies for the Financial Times by the Sedgwick Noble Lowndes group of management consultants and actuaries, comes as ministers are trying to impose a three-year freeze on the public sector's pay bill and retail price rises are running at an annual rate of less than 2 per cent.

Union plea at Eurotunnel

British and French unions are demanding that Eurotunnel should accept full union rights for their employees after the opening of the Channel tunnel later this year.

Officials from the UK's TGWU general union and the French union federation CGT met in Lille, northern France, to discuss future relations with the company, which has so far refused to negotiate any collective agreement with unions.

The TGWU said after the meeting that it was clear Eurotunnel intended to impose upon its European workers a complete derogation of all social rights which would be a serious setback for the achievement of workers.

Both unions are pressing for an early meeting with the company to talk about recognition.

The company said it had received no request from employees for unions, and added that Eurotunnel is "subject to the full rigour of European social legislation".

Blow to Ulster peace hopes

Hopes of a peace deal in Northern Ireland continued to fade last night when Mr Gerry Adams, Sinn Féin president, yesterday urged the UK government to tell unionists that their future lay with "the rest of the Irish people".

Interviewed on RTE Radio in Dublin, Mr Adams said that if the government did so, Sinn Féin would be "flexible" and would seek "a peaceful development towards an accord which everyone can give assent to".

His remarks dealt a further blow to faltering hopes of peace because such a move would require an unlikely climbdown from the government.

Mr John Hume, leader of the mainly Roman Catholic Social Democratic and Labour party, said yesterday that he believed republican leaders still wanted an end to violence.

Mr Hume has been involved in talks with Mr Adams that began before the Downing Street Declaration in December.

N Sea financial forum is formed

Financial participants in North Sea oil consortia have formed a group to promote the interests of companies which do not actually operate the offshore facilities.

The Non-Operators Forum is particularly concerned that the costs of corporate decisions taken by oilfield operators, such as redundancy programmes, are routinely passed on to them without consultation.

The 12 founding companies include OMV of Austria, Sella Petroleum of Sweden. About 60 such non-operating companies are active in North Sea consortia.

Resignation deal close at Lonrho

By Roland Rudd and Robert Peston

Four of Mr Tiny Rowland's closest supporters on the board of Lonrho are near to agreeing to resign from the company in return for payments equivalent to two years' salary.

Their departure would leave Mr Dieter Bock, joint chief executive of Lonrho with Mr Rowland, in control of the international conglomerate. Since joining Lonrho a year ago, Mr Bock has been battling with Mr Rowland to transform the international trading group into a more orthodox company.

The resignation deal may be announced on Tuesday together with the group's annual results. Shareholders' approval for the payments will probably be sought because the four directors are on one-year contracts - any compensation arrangements exceeding the contractual obligation must be put to a shareholders' vote.

The directors discussing the terms of their early departure are Mr Rene Leclezio, chairman, and Sir Peter Youens, both in their 70s, and the two deputy chairmen, Mr Paul Spicer and Mr Robert Dunlop, who are in their mid-60s.

Last year, Mr Bock succeeded in appointing non-executives to the Lonrho board for the first time in 30 years. His

priority for months has been to arrange the resignations of a handful of directors closely linked to Mr Rowland.

Severance pay for the four, which could be around £500,000 each for Mr Spicer and Mr Leclezio, has to be generous since Lonrho's articles of association make the departure of any director conditional on that director's consent.

Some Lonrho shareholders are likely to be reluctant to agree to such generous terms. Rather than risk a public dispute over the payments, Mr Bock had originally considered paying the four their contractual entitlements and then a further amount, described as consultancy payments, equivalent to an extra 12 months' salary. That would have avoided a shareholders' vote.

But Mr Bock is keen that the company should be seen to be following the Cadbury Committee's code on corporate governance and felt that avoiding a shareholders' vote would not be within the spirit of the code.

At Lonrho's annual meeting March, shareholders will be asked to vote for changes to the group's articles of association which would allow directors to be removed by a simple majority and the introduction of retirement at 65. Mr Rowland, who is 76, would be exempt from this rule.

Dairy groups scramble for milk

By Deborah Hargreaves

Almost half the 28,500 dairy farmers in England and Wales have signed to join Milk Marque, the farmers' co-operative which is to be formed from the Milk Marketing Board.

The board, the monopoly buyer of milk for distribution and processing for more than 60 years, meets the UK government today to complete changes to its plans to turn itself into Milk Marque.

Government objections to its original plans have set back introduction of competition to the market from April to August or October. But Britain's largest dairy companies are already scrambling to secure milk supplies before the £3.3bn milk market in England and Wales becomes a competitive free-for-all.

Many companies are promising farmers higher prices for their milk. But many farmers believe they should stick together in the face of the powerful dairies.

Mr George Harrison, a dairy farmer from Clifton in Cumbria, said: "By joining Milk Marque, I was thinking that as farmers we'd all hold together and that way keep our power. But there's always a small minority that think otherwise and go for the extra money."

Mr Chris Wood, a neighbouring producer, is one of the dairy farmers attracted by the extra cash. He plans to sell his milk to a cheesemaking plant



Dairy farmer George Harrison: "By joining Milk Marque, I was thinking that we'd all hold together"

in Appleby which is run by Express Dairies. Express has offered him a premium above the price paid by Milk Marque.

With milk supply in England and Wales limited to 85 per cent of the market's needs by Brussels quotas, dairies will have to pay more money for their supplies in the free market. The system used for setting

wholesale prices keeps them artificially low.

Low wholesale prices have led to widespread overcapacity in the dairy processing industry - estimates put it at between 30 per cent and 50 per cent. Intense competition for milk supplies is expected to see the closure of many processing plants.

British donations to charity 'lag overseas generosity'

By Alan Pike, Social Affairs Correspondent

Britain's treasured notion of itself as a philanthropic nation that gives generously to charity is challenged by an international study published today.

It shows that, while a majority of British people make donations to charity, the amounts they give do not stand up to overseas comparison. A typical British charity supporter donates only £2 a month - one-sixth of his or her US counterpart, and far lower than Canadian, French or Spanish donors.

The survey, the first international comparative study of giving and volunteering, illustrates the depth of a serious dilemma facing the British voluntary sector. It is coming under increasing pressure to provide additional services, while the public still finance charities with small change.

The British are far more likely to contribute relatively small amounts than donors in any of the other four countries surveyed - 19 per cent of British donors give less than £1 per

Total	Donations to charity*			
	Britain	Canada	France	Spain
% giving nothing	35%	38%	73%	29%
Typical donation per month (£)	2	10.5	10.10	7
* Total donation per person in month prior to interview				

Source: Charities Aid Foundation

month, compared with only 2 per cent in Canada and France, 4 per cent in the US and 8 per cent in Spain. While 11 per cent of British donors are shown by the survey to give more than £10 per month, they are overshadowed by 28 per cent in Canada, 26 per cent in the US and 21 per cent in Spain.

A single bright spot in the findings for British charities is that the proportion of the population donating to charity - 65 per cent - was the highest of any of the countries surveyed except Spain, where the results were influenced by large numbers of people buying tickets for charity lotteries. But although only 27 per cent of the French population had made a recent charitable dona-

tion when the survey was conducted the typical amount given was £10.10, compared with Britain's £2.

One explanation for the disparity may be that street and door-to-door collections remain the most common form of raising money from individuals in Britain. French donors are more likely to respond to advertisements or appeal letters.

Mr Michael Brophy, executive director of the Charities Aid Foundation which co-ordinated the research, said that while giving to good causes was a strong and established part of the British culture, the results suggested that "we do not value the role played by charities to the extent that some other countries do".

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THE MONDAY People page

Tony O'Reilly's independent standpoint

The boss of H. J. Heinz tells Ray Snoddy of his plans to break into British media

Dr Tony O'Reilly, head of H. J. Heinz, the international food giant, has a mission statement on his desk these days which has nothing to do with the importance of brands or the future of the Irish rugby team, subjects he cares deeply about.

His favourite mission statement at the moment is the one produced by advertising agency Saatchi & Saatchi for the founding of The Independent newspaper promising that it "should be independent from all groups". As he plans his counterattack to the proposition likely to be unveiled this week, that could make Mirror Group Newspapers a 40 per cent shareholder in Newspaper Publishing, the loss-making publishers of The Independent, O'Reilly is placing considerable emphasis on independence.

Selling newspapers is all about perceptions, the former Ireland rugby international says, and a newspaper sold as independent has to be seen to be so.

"I have no doubt the only way to have a future [for the Independent], the only reason for its being depends on it being even more independent," says O'Reilly. What will readers think, he asks, if "suddenly 40 per cent is now owned by a fairly rural left-wing paper" although he concedes some say the Daily Mirror may not now be as left-wing as it once was.

O'Reilly has already made an indicative offer of about £30m for up to 29.9 per cent of the group. A more formal proposal could be tabled for a Newspaper Publishing board meeting on Thursday.

That bid is the latest of O'Reilly's attempts to win a slice of the British national newspaper market. This week will be crucial in determining whether he wins a seat at the top table of British

newspaper publishing, to sit alongside the international media magnates such as Conrad Black and Rupert Murdoch whom he regards as his peers.

O'Reilly was fascinated by the launch of The Independent in 1986. "The Independent represented a breaking of the mould in British journalism. In presentation and style it provided something new. Not breathtakingly new but an interesting niche approach to a vibrant market. This was an interesting brand and one I was personally excited by," he says.

Now he is determined to take a stake in the newspaper he much admired and play a part "in the slow process by which the fortunes of the paper are mended". He says is not looking "for something that is going to be a quick buck".

For years O'Reilly has wanted to expand his newspaper interests from his original base in Ireland and in particular into the UK national press.

International ambitions

Whenever there is talk of a national UK newspaper being for sale, O'Reilly's name always comes up. He failed in an attempt to buy MGN when a majority stake of the group was held by administrators. His international ambitions suffered a setback when he lost out to Conrad Black in the battle for John Fairfax newspapers in Australia.

"We haven't so much been banging on the door [of UK national newspapers] as banging on the side door," says O'Reilly. He is well known to be one of the most highly paid executives in the world as chief executive of Heinz. He began his rise to the top when, in his own words, he "redefined what agricultural marketing was all about" by launching the Kerrygold campaign for



Irish butter when he was 25.

His background in food does not mean he is without serious newspaper credentials. With the help of a management team led by Mr Liam Healey, O'Reilly expanded from his Dublin base to encompass commercial radio in California, Australian Provincial Newspapers in Queensland (controlled by O'Reilly family interests), an outdoor advertising business, half of the cable television business in Ireland and a joint venture with United Newspapers which produces a hybrid of the Daily Star for the Irish market - an edition that sells 90,000 a day.

O'Reilly's template for the future of The Independent would involve a spread of minority shareholders to ensure independence. They would then buy all the services they needed, such as printing, on the open market. The would-be shareholder in Newspaper Publishing is not without allies. He has been approached by another potential investor in the company, a newspaper group which he declines to name but whose credentials, he says, are impeccable.

"We have not got another shareholder lined up but we have had an approach," says O'Reilly, and suggests that the potential shareholder could be on board by Newspaper Publishing's Thursday board meeting - the first to consider the various bids and proposals on offer.

He clearly envisages a continuing role for Andreas Whitam Smith, principal founder of The Independent. It would probably not be as central as that being suggested by the consortium. Whitam Smith is putting together with

MGN. Under this proposal, existing shareholders El Pais and La Republica would hold 51 per cent with the founders holding nearly 10 per cent. Whitam Smith would remain editor-in-chief, one of seven directors and possibly even chairman.

"The reality [on Whitam Smith] is that almost like De Gaulle - L'Etat, C'est Moi," says O'Reilly. However, it is thought that he has identified a candidate who would be brought in to edit The Independent on a day-to-day basis.

Clear vision

His aim is to have shareholders at Newspaper Publishing with cash, experience and a clear vision of what The Independent is about. He does not believe he can be shut out. Mr Ian Hay Davidson, chairman of Newspaper Publishing, has made it clear that he wants to see at least one alternative to the Whitam Smith consortium on the table on Thursday.

The Heinz boss says he would be flexible in his approach to the future of Newspaper Publishing and would be prepared to work not only with the founders but also shareholders such as El Pais and La Republica.

He says that playing rugby for Ireland taught him how to cope with losing. But that is not something he is prepared to do now. "Although we will not make a sole offer for the entire company, we are very very determined," he explains. This is a battle he has no intention of losing.

Internationally... Cheung: leading light in Hong Kong

The sudden death of Michael Gale understandably overshadowed another announcement Hong Kong Telecommunications made last Wednesday - the appointment of Linus Cheung, 45, as the company's chief executive from May 1, writes Simon Holberton.

Cheung (or, Cheung Wing Lam as he is known in the Chinese-language press) was, until his appointment, the most senior Hong Kong Chinese executive with Cathay Pacific, the Swire-controlled international airline based in Hong Kong. Earlier this month he had been made deputy managing director of Cathay with responsibility for the airline's worldwide commercial

activities.

Cheung's rise at Cathay - which, like most other British-owned companies in Hong Kong, is dominated by expatriate managers whom nice young girls would be happy to introduce to their mothers - is due in no small part to the business skills he displayed in developing Cathay's business in Taiwan. Former colleagues in business and government - Cheung did a two-year secondment at the Hong Kong government's policy unit, or "think tank", in the late 1980s - describe him as a highly polished performer. Indeed, "smooth" is an adjective most often used to describe him. He is "totally user-friendly

in a cosmopolitan world", in the words of one former colleague. "He is a highly motivated almost restless commercial man with a genuine sense of social responsibility."

Cheung is a leading representative of the post-war "Hong Kong generation" - born and brought up in Hong Kong, many of the brightest came to notice at Hong Kong University in the late 1960s and early 1970s. His contemporaries are now leading lights in local politics, the law and business.

But with his appointment to the top of the pile at Hong Kong Telecom Cheung can claim to have outshone them all.

Buba's new baby banker

Gerd Haisler, one of only two candidates ever to pull off a "one" in the tough apprenticeship exams for fast stream Bundesbank officials, seldom fails to make an impression, writes Katharine Campbell. So it comes as no surprise to German central bankers that, at the tender age of 42, their smooth-talking colleague is expected to succeed Günter Storch in the council's seven-man directorate when Storch retires at 68 next month.

Haisler would be the most youthful director ever - Helmut Schlesinger, Buba president until last October, was hitherto the youngest when he was promoted at 48. With his fluent American and French and his bulging international contacts book, he should also inject a cosmopolitan air into council proceedings.

As well as showing talent in the bank's basketball team, Haisler worked for most of the 1980s as the then president Karl Otto Pöhl's personal assistant. A veteran of the international department, he had also earlier had a spell at the Bank for International Settlements as a partner to Günther Schleiminger, who was general manager. He has run the main credit department since 1990.

Closely associated with the Free Democratic party, he is also a natural replacement for the similarly aligned Storch, thereby maintaining the

tradition that one member of the directorate is of liberal persuasions.

With the approval of the Bonn cabinet already secured, formal confirmation of the appointment now appears to rest only on the signature of Germany's president Richard von Weizsäcker.

Hoechst by his own petard

Wolfgang Hilger (below), chairman of Hoechst, will not seek election to the company's supervisory board when he retires next year, writes Christopher Parkes.

His unexplained decision is a departure from German business tradition - especially strong at Hoechst - whereby top managers normally end their careers supervising the activities of their successors.

The announcement followed promptly on the heels of a press report on Friday that present members of the supervisory board did not want him. The report said his conduct during a series of chemicals leaks and accidents a year ago was considered to

have severely damaged the group's reputation.

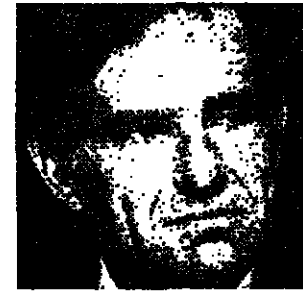
During late February and early April 1993, after 10 years clear of noteworthy accidents or spillages, the company reported almost 20 within less than two weeks. Hilger was condemned in the German media as an "insensitive technocrat" after he blamed fate for the "statistical frequency" of the accidents, which resulted in one death.

EIB top staffer

Thomas Oursin is the new secretary general of the European Investment Bank, the highest staff position at the Luxembourg-based bank, writes Lionel Barber. His appointment hears the fingerprints of Sir Brian Urwin, former head of the UK Customs and Excise who took over as EIB president last year.

Sir Brian wants to improve communications with his political masters in Brussels, and to make sure that the EIB can shape policy as it expands its lending portfolios and takes a leading role in the European Commission's strategy to promote economic growth and competitiveness inside the EU.

Oursin, a 63-year-old German who worked at the World Bank, joined the EIB in 1974 and has a reputation for being sociable and skilled at absorbing briefs. His last job was head of the directorate dealing with operations outside the EU, such as Asia, Eastern Europe, and Latin America. He replaced Dieter Hürtwich in the post as from January 1.



MANAGEMENT

Trifast is a pioneer of partnership sourcing. Andrew Baxter reports on the background to its flotation

Principles to fasten on to



Trifast's Malcolm Diamond (right) with financial director John Wilson

For the average hard-nosed stock market investor, laudable concepts such as partnership sourcing, just-in-time delivery and total quality management tend to take second place to cash flow, gearing and dividend payments.

But for Malcolm Diamond, managing director of Sussex-based Trifast, they are three guiding principles for business. After a decade using them, and persuading customers to work in partnership with Trifast, he is hoping to convince investors of their importance too.

Trifast is going public next month in a £15m flotation that will raise £2m-£4m for the company - most of the rest will go to its two founders, who are cashing in a big part of their stake. The pathfinder document is due to be released on Wednesday.

In financial terms, it is an unexceptional deal, and Trifast's products - some 70,000 different types of industrial fasteners with names like the Bux Nut and the Hank Rivet Bush - are unlikely to get City types salivating. But, apart from offering an investment in a barometer of the UK electronics and electrical industry, where most of Trifast's fastenings end up, it is also a rare opportunity to invest in a UK pioneer of influential management ideas.

Diamond, who has worked at Trifast for 19 years and been its managing director since 1984, talks about them with as much commitment and enthusiasm as on the subject of the latest technology for putting heads on to screws. He says the principles are much more than just a philosophical framework - there is a clear link between their adoption and the financial performance of the company, which trades as TR Fastenings.

The practice for which Trifast has gained most recognition is known as partnership sourcing. This involves it becoming sole supplier to a customer, normally for all its fastener needs, and often supplying direct to the production line.

With a high degree of trust on both sides, paperwork can be cut to a minimum, the customers' stock levels can be reduced and Trifast gets the security of long-term business in return for giving a better overall service.

Up to this point, partnership sourcing has much in common with another new approach known as "fastener management". In this case a supplier such as Trifast takes responsibility for all the customer's fastener needs, in line with the trend towards the contracting out of "non-core" services.

But the partnership approach goes further, as it leads to a cradle-to-grave relationship on each of the customer's products. The supplier gets an early look at planned

products so that it can work out its own schedules and make suggestions to the customers, and also receives early warning of when a product is to be replaced.

Partnership sourcing has become increasingly important in the information technology and electronics industry, where short product cycles and the fast pace of change make such a relationship mutually beneficial - if not crucial, especially for the supplier. Other fastener

companies, such as Infast, part of Haden MacLellan Holdings, are also developing such arrangements with customers. Partnership sourcing is also being promoted more widely by the Department of Trade and Industry and the Confederation of British Industry.

Roger Hardman of James Capel, Trifast's broker, claims partnership sourcing is part of a virtuous triangle which also comprises JIT and TQM. "None of these philosophies is

much use without the others," he says. "It's all indicative of an approach that puts the customer first."

Trifast's involvement with partnership sourcing began a decade ago when IBM UK wanted to reduce costs by thinning its supplier base.

"They told us we were an average supplier of fasteners, but our attitudes were better than average," says Diamond. "So we were selected as a guinea-pig - because with so many types of fastener there is so much scope for things to go wrong."

Initially staggered by the demands on quality and delivery made by IBM in return for becoming a single supplier of fasteners, Trifast has now won two of the computer company's "market driven quality" awards and gained sufficiently in confidence to take the concept to other customers.

Diamond likens partnership sourcing to a supermarket which customers use because of the overall package - the convenience of shopping in one place, known reliability and quality - even though some individual items might be found more cheaply by going round several shops in the high street.

The challenge, says Bob Stevens, group quality director, is to convince purchasing managers to look at overall costs rather than price and to accept that partnership sourcing can lead to savings even if it does not put money in their hands. The costs and time involved in repeatedly contacting a batch of fastener suppliers, asking about price and delivery and choosing the best deal, are frequently overlooked.

"Very rarely do fasteners exceed 1 per cent of total purchasing," says Diamond. "But the overheads often exceed that." Once the core relationship is established, however, there are some useful spin-offs for Trifast. Some IT suppliers are using the fastener supplier to bring in items such as cabling and industrial gloves on its regular trips to fill the fastener bins, says Martin Phillips, director responsible for sales to the IT and electronics industries.

Partnership sourcing and fastener management have taken off for Trifast in the past five years, comments Stevens, and it now has 70 customers using such arrangements. This represents just 2 per cent of its customer base of 3,500, but already accounts for about a third of its annual sales and could reach half, says Diamond.

For investors, there are two points about such arrangements. First, the margins on this business are generally higher, says Diamond. Just as importantly, partnership sourcing "locks in" the supplier to the customer, insulating at least part of the business from the vagaries of the traditional customer-supplier battleground.

TIPS FROM THE TOP

Honesty is the best policy

Tom Farmer, chairman of Kwik-Fit, offers advice on how to build a culture of integrity

I have always believed that most people are fundamentally honest and, provided they are given the proper opportunity and recognition, they will give of their best. While there have been occasions when I have been disappointed, it is a view that has served me well throughout my life. With the correct recruitment policy and people it is the only approach that you can take when running a business, whatever its scale.

Honesty is an intangible quality for which it is impossible to legislate. You can have as many rules as you want but if people choose to break them then there is little that you can do to stop them. It is the responsibility of management to create an environment which reduces temptation by having adequate controls which are sound but not stifling.

The most effective deterrent is to build within the company a culture based on pride in one's job. Not only will this improve the quality of the service or product offered, and produce profit, it will mean that an act of dishonesty becomes a betrayal of oneself and one's colleagues. This culture must stem from the top down and the attitude of management towards their people is a vital element in its creation.

I have found that the best results are achieved by treating people as you would wish to be treated. People must be provided with a decent working environment and all the facilities they require to do their job. A proper pay scheme must be in place which reflects their contribution and everyone should have the opportunity to share in the profits they help to create.

Everyone should know what is expected of them and should have received sufficient training to enable them to be fully skilled in that task. There should be opportunities for everyone to develop to the best of his or her abilities; the promotion prospects and training programmes within



The right culture will mean that an act of dishonesty becomes a betrayal of oneself and one's colleagues

the company should encourage ambition.

Last year we served 4m customers - the majority of which were making a "distress purchase". At Kwik-Fit we aim for "100 per cent customer delight". It is a standard that we have set ourselves and a promise to our customers that is the main theme of our advertising on which we spend around £10m per year. Unfortunately we do not achieve this in every single case. Two years ago we were the subject of criticism by a consumer magazine. While we did not agree with all aspects of their analysis, their findings taught everyone within Kwik-Fit a valuable lesson. It showed that people who did not follow their training and the company's procedures could jeopardise the company's reputation.

This criticism made us review our operating practices. While we had procedures and training programmes in place we found that they were not always being carried out effectively.

BS750, together with Investors in People, identified the areas for improvement and helped us to plug the loopholes which can arise in any company's operations.

The company which is honest acknowledges where there are areas for improvement and accepts criticism which can be turned into a force for good provided proper steps are taken to make change.

We publish our results within 15 working days of the year end. We established systems to improve our profitability but we have realised other benefits. Our people know our culture and it is made clear that anyone who breaks the rules has no place within the company.

We have not always managed to achieve all the things I have outlined above all of the time. I know that because human beings are fallible, there have been occasions when someone has been let down - but we try and we keep trying to develop and maintain our standards. It must be an obsession and what I would describe as a "magnificent obsession". I have found that our principles form the basis not only for an honest culture but also for a profitable business.

Next Monday: Lew Platt of Hewlett-Packard concludes the series with tips on how to keep close to your employees.

'But which one goes first?'

Jim Kelly on the confusing choice of trains between London and Gatwick

Business travellers arriving at London's Gatwick airport now have three choices of rail service into the capital. In theory, this should make it easy for weary voyagers to pick the first train heading in their direction. The reality is sadly disappointing.

The choices are part of the run-up to the UK government's railway privatisation programme. The Gatwick Express, the non-stop link between the airport and London's Victoria station, is to be privatised this year. It now faces competition from two divisions of British Rail - Network South-East and Thameslink.

The problem with such variety is that, if it is to be useful, we have to know that there is a choice, and have enough information to make one.

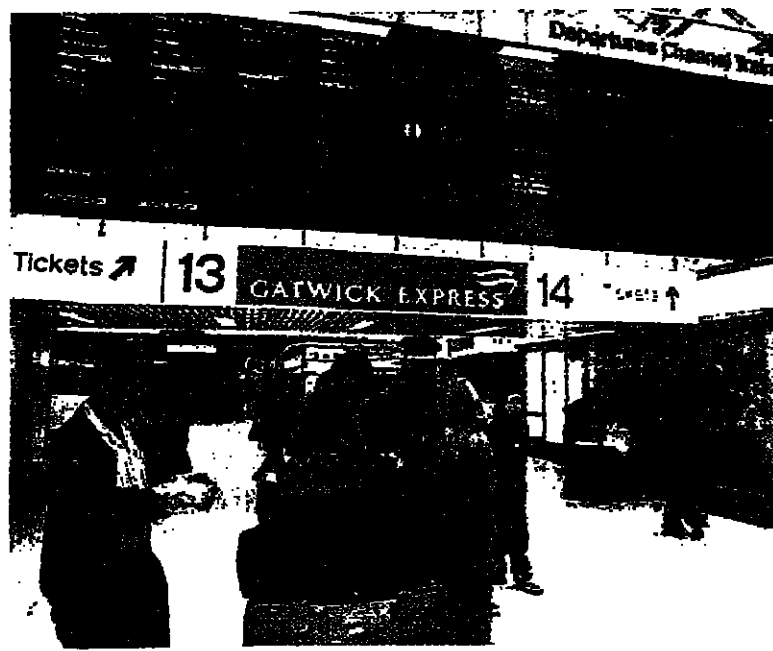
If you are travelling to Gatwick from central London, a flashing neon information board at Victoria station tells you which Gatwick Express leaves next. But what you really need is one that tells you which service leaves next, regard-

less of the operator.

Business travellers leaving the flight arrival hall at Gatwick, on the other hand, have to make their first choice as they move towards British Rail's booking hall. Two large posters stand over the entrance: one advertises the Gatwick Express, the other BR's Thameslink service to the City of London.

Now here is a real, and useful, choice - between travelling on the Gatwick Express into the capital's Victoria station, with its excellent connections and proximity to the West End, or making your way via Thameslink to London Bridge, the City Thameslink station, and then King's Cross for stations to the north. But by the time you have reached the station booking hall this choice has probably been lost under an advertising onslaught from the Gatwick Express.

The booking hall appears to have been decorated for a papal visit. Maroon banners hang from the ceiling promoting Gatwick Express. The first



Gateway to Gatwick: neon signs don't tell the whole story at Victoria station

three booking windows, inevitably decked out in maroon, are for Gatwick Express.

Beyond those booking windows are the ones for BR's Network SouthCentral service to Victoria. This service is three minutes slower than Gatwick Express, but slightly cheaper.

But what flight-weary travellers are probably most interested in is which will get them to Victoria first. When trying to buy a Network SouthCentral

ticket, I was told by staff at the booking window that there was a faster alternative. I was not told I could choose an alternative destination, via Thameslink, or that the Network SouthCentral train might leave before a Gatwick Express anyway.

The most useful information in the booking hall is a modest-sized, framed poster summarising the destinations available, the prices and the frequency of service. These are displayed

by the booking windows - which means that after queuing for a ticket you may discover you have been waiting in the wrong place.

Tickets are transferable between the services, but I could see nothing to inform the average traveller of this. Supplements have to be paid if you move to Gatwick Express.

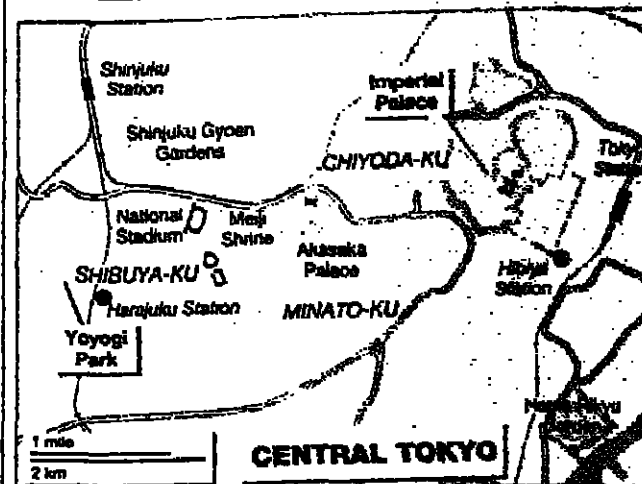
So how do the services compare? Gatwick Express's principal advantage is that it leaves every 15 minutes, and is clearly signposted at both ends of the journey. The trains are immaculate, with extra room for luggage. The price is £8.50, or £13 for club class (£12.75 and £19.24 respectively).

SouthCentral has older stock, is less comfortable and has probably arrived from Brighton, or elsewhere in the south of England. It can therefore be quite full. Network SouthCentral plans to run a service every 15 minutes from May. The price is £7.50 (£11.50 first class).

Thameslink currently runs twice an hour, but has plans for more frequent services. It charges £7.50 to London Bridge, £8 to City Thameslink. The trains are clean, roomy, but not as comfortable as the Gatwick Express. Thameslink is useful if you want to go direct to the City of London or to make a connection to the north at King's Cross.

My Gatwick Express from Victoria to the airport was smart, clean and air-conditioned. At another platform was a Network SouthCentral train, which was crowded and grimy - but it left first.

JOGGERS' GUIDE: Tokyo



Routes for crowd-lover and loner

Charles Leadbeater on a city not built for athletes

Tokyo is a joggers' nightmare. Parks are few and far between, often dusty and invariably crowded. Pavements are rare outside the centre. In the summer the city is so hot and humid it is often uncomfortable to walk, let alone run. Yet finding places to jog or walk is not impossible; it just requires more effort than in many other cities.

● The most popular jogging route is in the centre, a 5km circuit, with a shorter variant. The route is along a pavement around the moat that surrounds the Imperial Palace.

It is within walking distance of many top business hotels, such as the Imperial and the Palace, or via Hibiya station on the green Chiyoda subway line. Often crowded in the mornings, most of the route runs parallel to a six-lane highway.

● Further along the Chiyoda line towards Shinjuku, the best park to run in is Yoyogi Park in Harajuku - the largest in Tokyo (get off at the Harajuku stop on the Chiyoda line).

One of the big attractions at the weekend is the variety of Japanese lifestyles on display, from exotic punks to families

in formal kimonos attending the nearby Meiji shrine.

● The more adventurous might want to go further afield. A favourite spot for walking on a Sunday night is the docks at Shinagawa; ask a taxi driver to take you to the Shinagawa Ferry Wharf. As Japan is such a law-abiding place, the area is neither patrolled by dogs nor enclosed by barbed-wire fences. People walk along the dock, a mile round-trip, simply by dipping under a chain.

The area is deserted. Cranes stretch out towards Yokohama and Tokyo bay as airliners land at Haneda airport. The best view of Tokyo as a city is framed beneath the newly opened Tokyo Bay bridge, in the height of summer the docks are one place where there can be cool breezes.

● Another favourite beat is along the tow path of the Tonegawa River, which is a 25-minute walk from the city centre.

Catch the purple Hamamatsu line to Futatabi Tamagawa. Then walk down the river towards the exclusive neighbourhood of Den-en Chofu. The walk takes about an hour.

Quake city on the way back

Los Angeles seems to be getting back to business as usual a week after the earthquake that killed more than 50 people and caused an estimated \$10bn-\$30bn in damage. The UK Foreign Office has withdrawn its warning that only essential journeys should be made to the city.

Portuguese strike

Transport in Portugal may be disrupted on Tuesday 25 January. Portuguese civil servants, doctors and teachers have called a national one-day strike in protest at proposals by prime minister Anibal Cavaco Silva's centre-right government to limit 1994 public sector pay rises to 2 per cent. Transport workers also plan stoppages.



In Spain too

Spain's two biggest trade unions will hold a one-day national general strike on Thursday 27 January in protest at the socialist government's plans to reform the labour market to make hiring and firing easier and cheaper.

Unsafe passage to the CIS

Internal air travel in the former Soviet union is fraught

with difficulties.

Cancellations, long delays and overloading of flights in some CIS states are frequent, particularly in the Transcaucasus. It is not known whether aircraft are regularly maintained.

Travellers are advised where possible to fly directly to their destination on an international flight originating from outside the former Soviet Union.

But even this may be disrupted if a threatened strike by Russia's air traffic controllers goes ahead. The controllers complain that they often have to work with outdated and unreliable radar and communications equipment.

Last week a Russian investigation commission said "an extremely serious error" by an air traffic controller nearly caused a mid-air collision between two western jumbo jets over Russia's far east in late November.

Once safety in the former Soviet Union, however, there are now few difficulties in conducting business in, for

example, the oil-rich state of Azerbaijan, provided you avoid the Nagorno-Karabakh enclave and border areas. The UK Foreign Office says it is safe to travel to Azerbaijan.

Visitors to the Tajikistan capital of Dushanbe say they have to cope with a nightly curfew, rising crime and power shortages. On arrival in Dushanbe declare all foreign currency and valuable items such as jewellery, cameras, computers, etc.

Up, up and away

The number of scheduled airlines continues to increase in spite of predictions of another big collective financial loss for the industry for 1993.

Worldwide, 110 scheduled airlines started services last year, while another 84 closed shop, either through failures, withdrawals from scheduled flights or mergers.

According to a year-end survey by ABC World Airways Guide the net gain of 26 last year was 50 per cent more

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	7	11	10	9	11
Hong Kong	17	20	18	19	20
London	11	11	9	10	8
Frankfurt	5	6	6	7	8
New York	7	7	3	1	6
L. Angeles	15	16	18	21	24
Milan	9	10	12	7	7
Paris	11	11	7	10	10
Zurich	8	8	8	6	7

Maximum temperatures in Celsius. Information supplied by Meteo Consult of the Netherlands.

than in 1992.

Among airlines starting scheduled services in 1993 were the Bahamas-based Laker Airways, Air 2000 and British World Airlines, two UK carriers which to date had been exclusively charter, and

nine new entrants in CIS states. Famous names to disappear from the scheduled market included UTA (merged with Air France), Denmark's Sterling Airways, National Air of Canada and MGM Grand Air in the US.

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Architecture / Colin Amery

Pledge to move back to town

For the man in the street, or on the by-pass, the planning process, which has such an impact on our everyday lives, remains a great mystery. We all know that there is a complex, intrusive and definitely bureaucratic planning system which, in theory, regulates the shape of our environment.

The system is meant to keep the planning process clean, decent and legal. It is also meant to reflect the democratic will of Parliament and, through the complex system of local democracy, reflect the will of the people.

But a glance at the condition of many of Britain's towns and villages shows that there are other, more powerful, forces at work: economic, political and market forces.

When Baroness Thatcher was prime minister she had regular private meetings with property developers, builders and retailers with the aim of simplifying and speeding up the planning process.

The result was the 1980s boom - the spread of by-passes and motorways, the over-supply of superstores and offices.

From 1986 to 1992, development was focused on out-of-town locations and as a result the traditional high

street has been under tremendous pressure. As we park our cars outside the supermarket, there are lingering worries about the empty shops belonging to anxious traders in the smaller towns. The lower levels of consumer spending in the past few recessionary years have not helped and there is no doubt that competition from the shopping centres built in the 1980s has had a direct effect on the town they "serve".

Many will feel the new guidance is a belated reaction to the proliferation of new developments

One of the little known aspects of planning is the Planning Policy Guidance Notes. These notes, known as PPGs, which appear regularly as supplements to planning Acts and government circulars, set out government policy on different aspects of planning.

It was "PPG 3 Major Retail Development", issued in 1989, which seemed to set the seal of planning approval on the major out-of-town shopping developments. Now, in an almost complete volte-face, a revised version of the retail

development guidance note has been issued, emphasising the need to revitalise town centres.

Many will feel that the new guidance is a belated reaction to the proliferation of new developments: the stable door is being closed long after the retail runners have galloped all over the kingdom.

The new guidance note does, however, offer a balanced view that would permit further out-of-town or edge-of-town retail development, providing it does not affect the vitality

made a forthright and pointed speech at last week's seminar on planning and development control, organised by the Town and Country Planning Association.

He pledged his help to those who are willing to "achieve the quality of traditional town centres which they value, and put the heart back into cities". Good urban design in town centres, he said, "demands vitality in the urban property market".

Vitality flows from people's decisions to shop there. In turn that depends on a positive approach to planning and managing town centres.

It also means discouraging development on green-field sites on the edge of cities.

Out-of-town shopping centres require people to travel by car. They deny the opportunity to make one journey serve several purposes. Business parks on the by-pass also demand that people drive to work and having driven to work they have to drive out for their lunch, or to pick up a few items for their evening meal. Such developments are derisive - they deny access and choice to those without a car; they are both car-dependent uses.

Mr Gummer went on to say that we should learn to see the car as a servant not as the

determinant of the way we build. When it comes to the future of town centres he was very clear: "I want to see town centres which serve the whole community and provide a focus for retail development where the proximity of competing businesses facilitates competition from which consumers benefit. I want to see town centres which contain variety and activity, and in which a whole series of different uses are encouraged."

"Such diversification of use can ensure that the economic activities reinforce each other, and make town centres more attractive to local residents, shoppers and visitors. I want to see a range of activities - entertainment, restaurants and cafes, health and educational activities."

"Towns need to be places where people choose to live, and work and enjoy themselves. I want to see us improve the quality of our towns so that we can reduce the pressures of urban sprawl and the development of green field sites."

These are stirring and appropriate words for the next decade. But are they in time to bring about the renaissance of our towns and the improvement in the quality of urban life that is so necessary?



Frank Gallagher as Salter and Jim Twaddale as McGee wrestle with the coalface politics

Theatre / Malcolm Rutherford

Dark and desperate down in the pit

The decline of the British coal industry is one of the most dramatic events in recent British history. Less than a decade ago, the National Union of Mineworkers could threaten to bring down a government, and sometimes succeed. The miners were regarded as the salt of the earth even by former conservative prime ministers: buying them off was a price worth paying. And when Margaret Thatcher stood up to the miners' strike in the mid-1980s, she was by no means certain the union would be defeated.

By now, there are only about 20,000 miners left and British coal is on the verge of being privatised. Here is a play about the coal face, written from the inside. Mike Cullen's *The Cui* is the best first full-length work by a British dramatist for some considerable time. Not only does it break new ground in terms of subject, it also observes the classical virtue of confining the action to one place - namely the pit, some 3,000 feet underground.

There are only four characters, all miners. Daylight is never seen; the miners shy away from the surface as if it represents a

reality not to be faced. That does not mean that it is all solidarity. Politics underground are as intense as those above. Because of the location, designed at the Bush Theatre by Suzanne Fields, events are more dramatic.

Cullen was an electrician at a Scottish colliery before he turned playwright. His knowledge of the industry must be unsurpassed in the theatre, and the way he draws on it is one of the fascinations of the piece. *The Cui* is full of technical detail; without it, it would be a lesser play. To take a small example, an elderly miner (Sandy) is plainly suffering from pneumoconiosis; Cullen lets the coughing speak for itself.

The writer has borrowed one incident from the 1984-85 strike. In South Wales a concrete post was thrown from a motorway bridge on to a taxi taking a miner to work; the driver was killed. Cullen embroiders this into the wrong man being jailed for the offence, and another being killed because he was a witness.

For the rest, however, this is a tale of miners quarrelling with miners, of the most militant being the first to take the redundancy money when

the strike is lost and others pushing for management jobs under privatisation. Hessel, the only really unpleasant character, has packed in the union because the only way to have clout is to act from the inside. By the end of the play, he is the new underground manager. The plot is sometimes obscure, and not only because of the heavy Clydeside accents. There are masses of four letter words. But none of that is a defect. This is one of the few occasions where the swearing is a natural part of the language and not a substitute for thought. Being underground may have distorted the miners' intelligence; it has not necessarily diminished it.

The Cui is by Martin McCauley and performed by a relatively new Scottish company, Wiseguy Productions. It is a thriller because it takes some time before the full villainy of Kenneth Glenaan's Hessel emerges. Earlier one might suspect the equally excellent (but framed) Frank Gallagher as Salter, Jim Twaddale's McGee is one of those panicky characters inbetween.

Malcolm Rutherford Bush Theatre, (081) 743 3388

Theatre / Andrew St George

A dip in the deep end

A new fringe theatre in London, The Bridewell, has opened at the St Bride Institute at Bride Lane, Fleet Street. It deserves to be a roaring success.

The auditorium is built over a disused Victorian swimming pool - around the walls is a raised wrought-iron gallery, and above, a glazed roof.

The pool was built in 1893, and was closed in 1972.

Last year, Carol Metcalf and her company, Breach of the Piece, staged *Much Ado About Nothing* in the shallow end of the pool, and the idea of a theatre emerged. After five months' work, £400,000 from the Institute and some non-invasive design by Lloyd Leroy Architects, the theatre opened.

The pool itself is now the orchestra pit. The theatre's owners and governors, the St Bride Institute, are planning exhibitions and conferences in the space; the theatre's artistic director, the tireless Metcalf, can offer the theatre for a single early-evening after-work corporate show or a lunch-time revue (imagine how many people fit into a 25-metre swimming pool).

The schedule includes Sondheim's *Pacific Overtures* later this year, but the Bridewell has opened with Shakespeare.

Julius Caesar gave the world the "most unkindest cut of them all"; this has nothing to do with the Lorena Bobbitt case in Virginia, and everything to do with getting *Julius Caesar* down to two hours on stage with a small cast.

The result is more a recital than a play.

The essentials of *Julius Caesar* remain.

although the actors need to relax much more and the action of the play needs to quicken.

The modern dress works well, particularly with video links to the battle scenes and studio speeches from Brutus and Mark Antony.

The shortened version of the play offers itself as Brutus' tragedy, the dilemma of a man torn between instinct and judgment: the part is well played by Clive Page.

Caesar stays alive long enough to show he is worth killing. Cassius lurks hungrily throughout, and Casca (successfully cast as a woman) is blunt to a fault.

Elsewhere, the play depends so much on ceremony (this is where "standing on ceremony" comes from) and crowd scenes which are all sweaty nightcaps and foul breath, that a scaled-down version risks missing the scope and reach of Caesar's ambition.

In action, this theatre has great potential for large scenes and intimate moments. But in Caesar the actors occasionally traded lines like water-polo players tossing a long pass across the pool.

The lighting could also be more focused to divide up the big stage, and the music should be more martial.

Carol Metcalf directs. But this is a sound start to what should be a fine new career for the converted swimming pool.

No jokes about Brutus' line: "Since Cassius first did whet me against Caesar I have not slept" - that would be too shallow a view of this deep play.

Bridewell Theatre (071 936 3486): In repertory with *The Merchant of Venice* until February 5

Classical music awards

The Classical Music Awards, the principal international prize-giving ceremony for classical music, were presented at the Royal Albert Hall in London on Friday night.

The 1993 winners were: Singer of the Year (Male) - Thomas Hampson; Singer (Female) - Cecilia Bartoli; Instrumentalist - Yuri

Bashmet; Composition - Symphony No 4 by Ludovico; Orchestra - New York Philharmonic; Newcomer - Sarah Chang; Recording - Górecki's Symphony No 3 (Nonesuch); Festival Concert Series - Tender is the Night; Baroque - Chorus; Arnold Schoenberg Choir; Chamber Group - Kronos Quartet; Early Music Group -

Orchestra of the 18th Century. Holland: Conductor - Valery Gergiev; Television Broadcast - The Vampyr, BBC; Opera Production - Oedipus Rex, Saito Kinen Festival, Japan; Personality of the Year - José Carreras.

The Awards are sponsored by Kenwood.

Antony Thorncroft



BERLIN

OPERA/DANCE
Staatsoper unter den Linden Two Gluck operas - *Alceste* and *Iphigénie en Tauride* - are in repertory over the next month. In new productions staged by Achim Freyer and conducted by Thomas Hengelbrock. Casts include Anna Caterina Antonacci (*Alceste*), Carola Höhn (*Iphigénie*), Gino Quilico (*Orestes*) and Keith Lewis (*Pylades*). *Alceste* opened last night and the premiere of *Iphigénie* is on Sat. Both are in French (200 4782/2035 4494).

CONCERTS
Schauspielhaus Tonight: Iona Brown directs Academy of St Martin in the Fields in works by Bach, Shostakovich and Tchaikovsky. Tomorrow: Barbara Hendricks song

recital. Thurs: Michael Schoenwandt conducts Berlin Symphony Orchestra in Handel, Stravinsky and Brahms, with piano soloist Deszö Ranki (2090 2156).
Philharmonie Tomorrow, Wed. Thurs: Bernard Haitink conducts Berlin Philharmonic Orchestra in Martinu's Oboe Concerto (Hansjörg Schellenberger) and Schubert's Eighth Symphony. Sat: Heinz Holliger conducts Ensemble Modern in Carter and Holliger. Sun, next Mon and Tues: Haitink conducts BPO in Mozart and Mahler, with violin soloist Frank Peter Zimmermann. Feb 12, 13: Claudio Abbado conducts Mahler's Eighth Symphony (2548 8132).
Komische Oper Thurs: Simone Young conducts orchestral works by Penderecki, Beethoven and Falia, with cello soloist Alexander Baillie (229 2555).

NEW YORK

THEATRE

● No Man's Land: Christopher Plummer and Jason Robards star in Harold Pinter's 1975 play, directed by David Jones. In previews (Roundabout, Broadway at 45th St, 868 8400).
● Angels in America: Tony Kushner's epic two-part drama - about religion, sex, AIDS and corrupt politics - conjures a vision of America at the edge of disaster. Part one is *Milk and Honey*, played on separate evenings (Walter Kerr, 219 West 48th St, 239 6200).
● Four Dogs and a Bone: John Patrick Shanley's comedy about movie-making and power plays in Hollywood was one of

off-Broadway's biggest hits last autumn (Lucille Lortel, 121 Christopher St, 239 6200).
● Laughter on the 23rd Floor: Neil Simon's 27th Broadway play, about a group of writers trying to write a new show, is one of his finest comic efforts. Directed by Jerry Zaks (Richard Rodgers, 226 West 46th St, 307 4100).

● The Sisters Rosensweig: Wendy Wasserstein's play, a comedy with serious undertones, about the reunion in London of three American Jewish sisters (Ethel Barrymore, 243 West 47th St, 239 6200).
● Heartbreak House: Shaw's play alternates with Dostoyevsky's *The Brothers Karamazov* in a Jean Cocteau Repertory production (Bowery Lane, 330 Bowery at Bond St, 677 0060).
● She Loves Me: The 1963 Bock, Harnick and Malachuk musical is a delicate, unabashedly simple story with all the humanity, integrity and charm that Broadway's mega-musicals lack (Brooks Atkinson, 256 West 47th St, 307 4100).

OPERA/DANCE

Metropolitan Opera Tonight's performance is the first this season of *La nozze di Figaro*, with Helen Donath, Ruth Ann Swenson, Dawn Upshaw and James Morris (in repertory till Feb 24). Alessandro Marc and Michael Sylvester head the cast in *Aida* tomorrow and Sat (in repertory till Feb 17). This week's performances also include Lucia di Lammermoor and Elektra. A new production of Britten's *Death in Venice* opens on Feb 7 (362 6000).
State Theatre New York City Ballet's winter season runs daily except Mon till Feb 27, with matinee

and evening performances on Sat and Sun. A new Peter Martins work is premiered on Feb 3. Dorey Russell gives guest performances on Feb 9, 10, 12 and 16 (870 5570).
Joyce Theater Eric Hawkins Dance Company is in residence this week. Feb 1-6: Elisa Monte Dance Company. Feb 8-13: Lucinda Childs Dance Company (242 0800).

CONCERTS
Avery Fisher Hall Tomorrow's New York Philharmonic concert, conducted by Neeme Järvi, includes works by Langgaard, Bruch and Sibelius. On Thurs, Fri afternoon, Sat and next Tues, Kurt Masur continues the tradition of featuring members of the orchestra as soloists, with a programme including Bach's Second Brandenburg Concerto and world premiere of Ned Rorem's English Horn Concerto. Feb 10: world premiere of Schnittke's Eighth Symphony. Feb 13: Mirella Freni and Nicolai Ghiaurov (875 5030).

Carnegie Hall Feb 1 and 3: Zubin Mehta conducts Israel Philharmonic. Feb 2: Vladimir Spivakov and Moscow Virtuosi. Feb 4: Dresden Philharmonic. Feb 6: Rostropovich conducts National Symphony Orchestra. Feb 12: Ozawa and the Boston Symphony (247 7800).

JAZZ/CABARET

● Eartha Kitt begins an engagement tomorrow at Carlyle Hotel (Madison Ave at 78th St, 744 1600).
● Jose Feliciano begins an engagement tomorrow at the Blue Note (131 West 3rd St, 475 8592).
● Singer Gail Winters and the Bill Charlap Trio are in residence at Michael's Pub for an open-ended

run. Woody Allen continues playing clarinet on Mon evenings. Closed Sun (211 East 55th St, 758 2272).
● The Brazilian season at the Ballroom continues this week with Angela Ro Ro (253 West 28th St, 244 3005).
● Weslie Whitfield, one of the most assured jazz-cabaret voices to grace New York in recent years, is currently at work in the Oak Room of Algonquin Hotel (59 West 44th St, 840 8800).

This week's programme at The Cat's is dominated by Holly Cole Trio, whose latest album *Don't Smoke in Bed* has helped spread the charms of Cole's versatile voice (380 Lafayette St, 533 7000).

PARIS

OPERA/DANCE

Opéra Bastille Tonight, Thurs, Sat, next Mon and Wed: Bernhard Kontarsky conducts Harry Kupfer's 1987 Stuttgart production of B.A. Zimmermann's *Die Soldaten*, with Lisa Saffer, Franz Muzura and Heiga Darnesch. Tomorrow: Corneille Kailash song recital. Feb 5: Myung-whun Chung conducts first night of André Engel's new production of Salome (4473 1300).
Palais Garnier Tomorrow, Wed, Thurs, Fri: Ballet de l'Opéra de Paris in John Neumeier's production of *Nutcracker*. Feb 9-28: Nijinska triple bill (4742 5371).

CONCERTS
Châtelet Tonight: Pierre Boulez conducts Ensemble InterContemporain in works by Philippe Manoury and Boulez. Sun morning: Abdel Rahman El Bacha continues his cycle of Beethoven piano sonatas. Next Mon: Felicity

Lott sings Strauss Lieder (4028 2840).
Salle Pleyel Wed, Thurs: Djansug Khachaturian conducts Orchestra de Paris in works by Weber, Sibelius and Rakhmaninov, with violin soloist Maxim Vengerov (4561 0630).
Théâtre de la Ville Sat: Deszö Ranki and Edit Klukon play piano music for four hands by Debussy and Ravel. Feb 4, 5: Zoltan Kocsis (4274 2277).

Théâtre des Champs-Élysées Next Mon: Vaygyn Kissin piano recital (4952 5050).
JAZZ/CABARET
Legendary blues guitarist Little Milton heads the bill for the next two weeks at Lionel Hampton Jazz Club, with a supporting act including Joe McKinney, Lynnie Love, Tony Brown and the All Star Orchestra (Hotel Mendiant Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042).

THEATRE

● Nora: Austrian playwright Elfriede Jelinek picks up the story of Ibsen's heroine in *The Doll's House* after she slams the door on marital dependency. Valérie Dravisky takes the title role. Claudia Stavisky directs. Daily except Mon till Feb 20 at Théâtre de la Colline (4482 5252).
● The Winter's Tale: Stéphane Braunschweig's Shakespeare production was much praised when it was first staged in Orleans last autumn. Daily except Mon till Feb 6 at Théâtre de Gennevilliers (4793 2630).
● Children of the Sun: Maxim Gorki's pre-revolutionary drama (1905) is directed by Luis Pasqual at Odéon-Théâtre de l'Europe. Daily except Mon till Feb 27 (4441 3636).

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It's the business cycle, stupid

The slogan "It's the economy, stupid" is indelibly associated with Bill Clinton's 1992 presidential campaign. Yet although it made good sense then to focus attention on immediate issues such as high unemployment, such an approach is now a political liability. The relevant question today is not the vitality of the recovery (that can be taken for granted, arctic weather and earthquakes notwithstanding), but where the US stands in that constant of economic life: the business cycle.



MICHAEL PROWSE
ON
AMERICA

How mature is this cycle? When will the economy run out of capacity and begin to face inflationary pressures? The question seems daft until you recall that the US will shortly enter its fourth year of relatively robust growth. Given that the preceding recession was mild, it is not safe to bet that the economy will still be strong when the New Hampshire primaries open in two years.

Some deceleration from the 6 per cent annualised growth of the fourth quarter seems assured. But given the accumulated momentum, growth may level off at 3.5-4.0 per cent. Paradoxically, such strength poses risks, warns Mr William Brown, chief economist at J.P. Morgan, the New York bank. Calculations by the Federal Reserve and others indicate the economy's long-run potential rate of growth is only 2.0-2.5 per cent. Excess capacity is thus disappearing rapidly: the rate of capacity utilisation in manufacturing industry is already close to the 83 per cent level previously associated with rising inflation.

And the US labour market is entering the inflation danger zone. Allowing for demographic trends, Mr Brown reckons a jobs rate (on the current definition) of about 6.75 per cent constitutes "full employment" in the sense that any further reduction in unemployment would cause accelerating inflation, and thus be unsustainable. The jobs rate has plunged 1.5 percentage points to 6.4 per cent in just 18 months. At this rate of decline, the US will hit "full employment" in about nine months.

Once cyclical expansions really get going, they are hard to control. If the Fed is to prevent inflation rising, it may thus have to tighten policy quite aggressively. Against conventional wisdom, Mr Brown predicts that Mr Alan Greenspan, chairman of the Fed, will raise short-term interest rates, currently 3 per cent, by a quarter point before delivering his Humphrey-Hawkins congressional testimony in late February. (The conventional wisdom is that rates will not be raised until March or possibly even mid-year.)

Thereafter the squeeze will have to intensify: by the end of this year short rates will be 4.5 per cent, rising to 5.5 per cent late in 1995. This sounds draconian. Yet although an increase of 2.5 percentage points would probably put a large dent in equity and bond prices, it would hardly be tough by historical standards. In the past six business cycles, short rates have risen by an average of 5.7 percentage points; even if one ignores the inflation-prone 1970s, the average increase was 3.8 percentage points.

The J.P. Morgan analysis, however, is only as good as its assumptions. Some Wall Street economists - for example Mr Bruce Steinberg at investment house Merrill Lynch - believe industrial capacity is growing much faster than official figures imply. He also rejects conventional estimates of long-run potential growth on the grounds that corporate restructuring has raised US productivity growth.

In his view, productivity is rising at about 1.75 per cent a year against just under 1 per cent in the 1980s. Since the labour force is growing at about 1.25 per cent, this means

the potential growth rate is now about 3 per cent. There is thus more slack in the economy than conventional estimates suggest.

One might add that standard measures of inflationary pressure could be equally misleading. Most experts (including the Fed) agree that the consumer price index overstates inflation, which is actually nearer to 2 per cent than the measured 2.7 per cent. Anxieties provoked by corporate "downsizing" and record levels of white-collar unemployment may also mean that the jobs rate consistent with stable inflation has fallen. At any rate it is hard to believe that many employees will be bold enough to start aggressively demanding higher pay in the near future.

It is thus possible that the current upswing could persist for several more years without generating much inflation. The economic landscape is changing in fundamental ways. The economic rise of east Asia and the adoption of market principles in much of the developing world - as well as some formerly communist countries - represents an historic extension of the global market; more intense competition should exert downward pressure on inflation in mature economies, such as the US.

Yet as Mr Brown points out, the extraordinary divergence in business operating rates in the US and Europe in recent years suggests that national economies are less integrated than many suspect. In particular, service sectors (two-thirds of most economies) are largely insulated from foreign competition. You cannot therefore assume that excess capacity in trading partners - or competition from the likes of China and Mexico - will prevent the US economy from overheating.

Since monetary policy operates with long and variable lags, the prudent course is surely for the Fed to tighten policy quickly and then debate the existence of a "new economic order". Taking the medicine early also makes political sense. Mr Clinton would surely prefer a modest firming of rates this year to a monetary crunch while campaigning in 1996.

In recent weeks, the gasman has been calling on 1,000 homes in Edmonton, north London, to fit a little electronic gadget to their gas meters. It is the first practical step in the revolution which faces the UK domestic gas market following the decision by Mr Michael Heseltine, the trade and industry secretary, to abolish the monopoly enjoyed by British Gas.

The gadgets read the meters every six hours and transmit the information by radio to a nearby receiver from where it is piped into British Gas computers. The company can thus monitor gas consumption four times a day rather than, as before, through the three-monthly meter readings.

The gadgets are part of an experiment by British Gas to improve its management of the UK gas system and cut the cost of reading meters. But they could help pave the way to the competitive market which Mr Heseltine wants to develop later this decade. The changes will be pioneering insofar as no leading industrial country has ever tried to liberalise gas sales to the extent planned in the UK.

The intention is that, after 1996, every household in the country should be free to buy its gas from as many as half a dozen competing companies. Although households will continue to receive their gas through the same pipes as before (these will still be owned and operated by British Gas), their supplier will be responsible for injecting enough gas into the system to meet its customers' demands. The supplier will therefore have to keep close tabs on its customers' consumption.

One way this could be achieved would be by attaching the Edmonton gadgets to customers' meters. These are made by Motorola, the US electronics company, and cost about \$10 each, including installation.

However, British Gas has also been trying to develop a new generation of meter, which incorporates more sophisticated metering techniques as well as the reading and transmission capability. Last month it launched a venture with Gill Electronic, a tiny high technology company which won a contest held by British Gas to design a meter for the 21st century. One of the main specifications was that it should be no bigger than a building brick.

Mr Mike Gill, the founder of Gill Electronic, expects his company to be producing the

The gas meter cometh...

Metering plans will be crucial to liberalising the UK gas market, say David Lascelles and Robert Corzine

meters at a rate of about 100,000 a year within 18 months. "This new technology will bring dramatic changes to the metering industry," he says.

He declines to say how the new meters will be priced, but British Gas has indicated that they should cost about the same as standard meters, or about £50 each.

One big - and so far unanswered - question, though, is who should pay to have the new meters installed? With potentially 18m households involved, the cost could be immense. Moreover, are the meters even necessary for the free market to operate?

These questions are a big worry for the independent gas suppliers that want to break into the domestic market. Their concern is that householders will think they have to go through the cost and inconvenience of installing a new meter if they want to change suppliers. This impression might be reinforced by the fact that people initially had to buy new telephones if they wanted to use Mercury, the independent competitor to British Telecom. This could lead to powerful consumer resistance which could block gas market reform.

Mr Mark Peterson, general manager of Total Gas Marketing and chairman of one of the industry groups looking at free market issues, says: "There is not a need for new meters." He argues that daily balancing of demand and supply in the gas network can be done by a process known as "deeming".

Every household which opted for a new supplier would be "deemed" to use a specified amount of gas based on its previous five-year record, and the independent gas supplier would pipe enough gas into the system to meet the deemed demand. If there was a surplus or shortfall, this would be corrected between the supplier and British Gas periodically.

But this is not the way British Gas sees it. The company is worried that it would have to



"back stop" the market by making up for any temporary shortfall in supply, even though it could impose penalty charges on suppliers that fail to supply enough gas.

Mr Nick White, a director of

Homes may use one gas supplier by day but another offering cheaper rates at night

Arthur D Little, the consultancy firm which is advising British Gas on the transition to a free market, believes the only equitable way to balance the system is to install automatic metering equipment in all households. He says that

"deeming" will prove too imprecise and will lead to arguments between suppliers. These arguments could be fierce because the UK operates a tight supply system, with only two big storage areas to provide flexibility.

Mr White says that small suppliers, which are likely to operate on thin margins, could face large penalty charges if deemed to be not sufficiently accurate to ensure they supply enough gas. In some cases these penalties might be enough to lead to a company having to withdraw from the market.

Sophisticated meters would also be necessary if the market was to evolve to the point where an individual household could buy gas from several different suppliers. A customer

might use one supplier in the day time, but switch to another in the evening because it was offering better peak-time rates. If so, the meter would have to distinguish between use at different times of the day, probably based on four-hourly time blocks.

At an even higher level of sophistication, a combined gas and electricity meter could be programmed to calculate which source of power gave the best value at any given moment, and switch the home heating system accordingly.

Since many of the new gas suppliers will be joint ventures between independent gas companies and local electricity companies, the scope for joint metering - and meter reading - will be considerable. "It's only days yet, and a lot of thought has to go into this," says Mr Peter Bryant, deputy chairman of United Gas, which has links with several electricity companies. However, he does not think that new meters will be an issue in the early days of the new market. "May be by 2000," he says.

Many of the issues to do with the actual operation of the new gas market will be set out in a new Network Code, which will be debated between the gas industry and Ms Clare Spottiswoode, the new head of Ofgas, the gas industry regulator, over the coming months.

With her strong penchant for competition, Ms Spottiswoode is not expected to insist on issues such as metering if they obstruct the free market.

But she realises that metering also raises fundamental issues of competition which must be cleared up before a liberalised market is introduced. In a speech last week she noted that the ownership of meters and the right to read them could convey a commercial advantage to the companies involved.

Another concern is that gas suppliers might use meters as a way of "locking in" customers and keeping out competition. Last month, Mr Gregor McGregor, director of strategic development at Ofgas, put out a consultation paper which foresaw the market developing with both daily and non-daily metering.

But ultimately, it will depend on how eagerly consumers embrace the novel idea of leaving British Gas for new suppliers. The independent gas companies will be setting out to woo them shortly.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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UK caught between two systems

From Ms Sarah Atkin.
Sir, in response to Joe Rogaly's recent piece, "It is a moral issue" (January 18) I would like to add the following points.

If we now lack national self confidence and self-belief it is because, as a society, we are fragmented and caught between two conflicting value systems: modern capitalism and the monarchical state. What we have ended up with after 14 years of single-party rule is the worst of all worlds: capitalism's downside - low wages, poor skills, a crumbling infrastructure and vast extremes of wealth - operating within a constitutional settlement that serves the interests of an elite, is open to political interference and inappropriate to the needs of a late-20th century democracy.

The national malaise is therefore more than simply a disenchantment with politicians. If our institutions are deficient then the need for far-reaching reform is long overdue. A new constitutional settlement would not solve our ills at a stroke but it would begin to create a culture of citizenship and give us some sense of common purpose and shared identity.

Sarah Atkin,
11 Avenell Road,
London N5 1DP

Premium fuss

From Mr Bill McMillan.
Sir, I recently travelled from Gatwick to London Victoria on a premium-priced Gatwick Express Capital Card ticket. As I was later in the London Bridge area it made sense to return from there, I thought.

The ticket collector on the train, however, said I had no right to do so. My ticket was not valid on the ordinary (cheaper) train. After much fuss - and no doubt observing my advanced age and strong protest - he said he would let me off this time. Is this, in fact, the privatisation of BR in advance? Is it a taste of confusion and battles to come?

Bill McMillan,
36 Hill House Close,
Turners Hill,
West Sussex

Reforms have taken Mexico a long way

From Mr Mark Phillips.
Sir, in your editorial, "Strife in Mexico" (January 20), you fail to mention that under the Salinas administration's reforms, long-term financial stability and, therefore, lower-cost, long-term financings would be further unattainable for the population than they are today. Only in the past several years has a 15-year busi-

ness loan or mortgage been conceivable for any but a small fraction of the population. With or without democratic reform these measures, secured by international treaties, will go a long way to enabling the people in Mexico to put food on their own tables. Mark Phillips,
200 West 15th Street, Apt 3C,
New York, NY 10011, US

No need to shout

From Mr J Michael Phillips.
Sir, I don't object to people who use mobile telephones to call from trains ("Tinseltown in the pub but fine on the train", January 20) just those who are too stupid to realise it is unnecessary to shout over the intervening distance as well. J Michael Phillips,
Mill Lane, Chesham,
Sharnbrook, Dorset DT9 6PB

Performance pay and bargaining rights

From Mr Mike Clancy.
Sir, Your article, "Power workers accept merit pay" (January 15/16), requires clarification. The new agreement for professional and supervisory staff in Eastern Electricity (the new company) is a performance-related pay (PRP). However, the statement that the trade union's acceptance of PRP ends our participation in pay bargaining for this group does not reflect the terms of the agreement.

Performance appraisal categories will determine precise individual increases, but the

product of the trade union's negotiations will be paid as a minimum to individuals who meet or exceed targets. In addition, we have secured the right to represent members over objective setting and their appraisal rating. Indeed, the new scheme does not go into full effect until 1996; this provides a phasing-in period negotiated by the trade unions due to our reservations about the efficiency of PRP as a method of rewarding and motivating professional staff.

It is important that the impression given by the article is corrected, as too often trade

unions are portrayed as unable to come to terms with PRP. We have successfully combined the protection of collective pay negotiations with rewards for individual achievement in the PRP system. There is nothing in this acceptance of PRP that is incompatible with strong trade union representation into the future.

Mike Clancy,
area secretary,
Engineers' and Managers' Association,
Flatman House,
Cognmore Lane,
Chersey,
Surrey KT16 9JS

Rethink building allowance 'defect'

From Mr David Davis.
Sir, In a press release of January 13, the government announced that it proposes to introduce legislation to "rectify a defect" in the legislation relating to the allowances attaching to commercial buildings in enterprise zones and industrial buildings elsewhere.

The supposed "defect" is that the owner of such a building who becomes entitled to capital allowances may dispose of a valuable interest in the property, through a long lease, without a drawback of capital allowances. However, to anyone with a modicum of financial awareness, that supposed defect is not a defect at all.

Additionally, the fact that investors in such buildings are able to make such a disposal was specifically recognised by legislation enacted in 1978 (Section 37 of the Finance Act 1978).

The enterprise-zone allowance is a government subsidy

given through tax shelter. It is, perhaps, ironic that such a subsidy is very often useless to a person who may wish to occupy a building constructed in an enterprise zone. They rarely pay full rates of corporation tax. The market, however, provided an answer. A whole industry has grown up around making efficient use of tax allowances but this does not comprise a raid on the Treasury. The arrangements simply ensure that the benefits granted by government are utilised to subsidise the cost of construction of enterprise zone buildings. This has a two-fold effect.

First, it means that a building is constructed where otherwise it would not be. In other words, investors may take a risk where the cost is tax subsidised. Second, it means that rents, or premiums on long leases, paid by occupiers are reduced. After all, rents, or premiums, are the method by

which investors recoup their investment. Lower investment costs mean lower rents or premiums.

Any amendment of the sort announced will not itself stop investments based on enterprise zone or industrial buildings allowances. It will, however, make some form of financing more difficult to structure, meaning that lawyers, accountants and bankers will charge higher fees. The proposed amendment was announced by Stephen Dorrell, financial secretary to the Treasury but I instinctively feel that this is not his "bright" idea.

No matter who thought it up, I would urge the government to think again. David Davis,
tax partner,
Richards Butler,
Barnard House,
15 St Botolph Street,
London EC3A 7EZ

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FINANCIAL TIMES

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Monday January 24 1994

Tokyo: time to compromise

When Mr Morihiro Hosokawa became Japan's prime minister last summer, ending 38 years of unbroken rule by the Liberal Democratic party, he rightly identified reform of the country's corrupt and antiquated political system as his coalition's principal task. By that yardstick, the defeat of his electoral reform proposals in the upper house of parliament on Friday represents a serious setback. It has undermined, perhaps fatally, the government's cohesion and credibility on the main issue that brought it to power.

Worse, it leaves Japan floundering without effective leadership in the face of the most serious economic recession since the second world war and at a time of mounting US pressures over trade. Vital decisions on stimulating and deregulating the economy are being held hostage by the row over reform. Unless it is swiftly resolved, economic confidence will take a further battering and, as Mr Lloyd Bentsen, US treasury secretary, made clear in Tokyo yesterday, Japan's international difficulties will multiply.

That things have come to this point is not Mr Hosokawa's fault. His reform bill had the potential to make Japanese politics cleaner and more transparent by replacing the current multi-seat constituency system with a mixture of single-seat districts and proportional representation, and had been endorsed by the lower house of parliament two months ago. Friday's failure reflects rather the fissiparous nature of his seven-party coalition, and in particular the implosion of its largest component, the Social Democratic party, 17 of whose members crossed the floor to vote with the opposition LDP. Mr Hosokawa is now in the tenuous position of relying on the power brokers of the LDP itself - the only party which can assure him of a majority - to salvage at least part of his plan.

Important change

Painful as it may be for the prime minister, a compromise between the government and the LDP on political reform is both necessary and desirable before the current parliamentary session closes on Saturday. Such a compromise is not impossible, for the LDP has proposals of its own. Although they dilute Mr Hosokawa's plan in various ways calculated to benefit the LDP, they retain his most important change - that to single-seat constituencies, which would foster competition between parties on policy grounds rather than encouraging individual politicians from the same party to buy votes with cash and favours as at present.

It is not just on the electoral system, however, that the government and the LDP need to reach some accommodation. The stagnant state of the economy is, if anything, a more pressing case for concerted action. In spite of repeated promises of an economic stimulus package in recent months, Mr Hosokawa has failed to deliver, and his coalition now looks less likely than ever to be able to agree on such necessary measures as a cut in income tax. Neither the domestic economy nor Japan's trading partners can tolerate further delay. Here, too, the onus is on LDP leaders to show statesmanship and recognise their self-interest in lending Mr Hosokawa a helping hand.

There will be those in the LDP who, for ideological or electoral reasons, oppose such co-operation. But the alternative - an early election under an unreformed electoral system - would hardly serve a useful purpose. Voters outraged by the politicians' failure to agree on political or economic reform would most likely deliver another weak coalition that would simply prolong the political and economic agony, preside over a further deterioration in Japan's relations with the US, its most important partner, and deepen popular mistrust of the political class.

Mr Hosokawa may be a transitional figure in a situation of unprecedented political fluidity. But the fact that he is one of the few politicians to whom the general public disaffection does not apply shows that his declared goals of political reform and economic deregulation are in tune with the desires of the electorate, as well as with the demands of Japan's international partners. From them and from his political rivals, he deserves support in managing an orderly transition to the fresh elections that are all but inevitable in a few months.

Mr Hosokawa may be a transitional figure in a situation of unprecedented political fluidity. But the fact that he is one of the few politicians to whom the general public disaffection does not apply shows that his declared goals of political reform and economic deregulation are in tune with the desires of the electorate, as well as with the demands of Japan's international partners. From them and from his political rivals, he deserves support in managing an orderly transition to the fresh elections that are all but inevitable in a few months.

Anglo-Irish co-operation

The Anglo-Irish strategy for bringing peace to northern Ireland has not yet brought about a ceasefire, but that is no reason to abandon it. Launched shortly before Christmas over the signatures of both Mr John Major, the British prime minister, and Mr Albert Reynolds, his Irish counterpart, its great strength is that it is a joint enterprise. This confers a political advantage that the terrorists cannot match. It puts London and Dublin unequivocally on the same side in promoting the use of the democratic process as the sole legitimate means of solving the problem of two communities living together on one island.

In contrast the perpetrators of violence appear to be divided. The Irish Republican Army is evidently unwilling to stop its murderous campaign. Perhaps it is unable to do so, for fear of provoking self-destructive infighting. Mr Gerry Adams, the president of Sinn Féin, the political wing of the IRA, speaks of an opportunity for peace, but has not shown himself capable of delivering a ceasefire. Instead he has ducked and weaved, talking of time for consideration, asking for clarification, trying to shift the blame for the violence to the British - in short, playing for time and appealing to a wide range of public opinion.

Unionist veto

Mr Adams' argument, and in particular his insistent objection to what he calls the "Unionist veto" over any future pan-Irish settlement, was demolished by Mr Reynolds on Thursday night. In an important speech, the Taoiseach recalled the UN charter, the Helsinki Final Act, the UN declaration on principles of international law (1960) and even South Korea's acknowledgement that reunification with North Korea should not be sought by violent means. All these authorities, plus Irish history, were invoked in support of the contention that "the people of northern Ireland have the right to determine by a majority whether they wish to stay with Britain or join a sovereign united or agreed Ireland".

The Irish prime minister noted that his joint declaration with Mr Major also recognised the right of self-determination of the nationalist - that is, Catholic - commu-

nity in the north. But a united Ireland could not be achieved by either political or military force, only by persuasion. "Accordingly, there is not merely no moral justification, but also no coherent ideological basis for a continuation of armed struggle," he said.

IRA isolated

Given time, the persistent demonstration that the IRA cannot justify its attacks, even to most people in its own national constituency, will isolate it, both within the troubled islands and internationally. The speech by the northern Ireland Secretary, Sir Patrick Mayhew, on Thursday night pursued a similar objective. Rejecting negotiations with Sinn Féin while violence continued, Sir Patrick offered "clarification" of how the nationalist party could be brought into the political process, once the use of arms was renounced. He thus showed that Britain might be flexible, without abandoning the principle that a ceasefire must precede serious talks. Mr Major's weekend reply to a letter from Mr Adams was in the same vein. This sensible strategy, and the entire Anglo-Irish concordance, would be enhanced by a removal of the ban on the use of Sinn Féin voices on British radio and TV, following the lifting of more draconian restrictions by Dublin.

No-one can expect with confidence that this approach will end IRA attacks. The UK government should nevertheless proceed with talks on new constitutional arrangements for Ulster, while taking care to keep Dublin on side at every step. It is well placed to ask for Mr Reynolds' wholehearted support for co-operation with security responses to whatever level of violence occurs. The Irish government has at last published a bill that would close legal loopholes in extradition procedures. It can no longer plausibly defend the possession of certain explosives and weapons as political offences to which extradition would not apply. Likewise, if further security measures, even draconian ones such as internment, have to be considered, Britain and Ireland should act in unison. Whatever Mr Adams does next, the alliance of purpose between London and Dublin is the most powerful enemy he has faced.

On the evening of Saturday December 4, bankers and industrialists gathered at the home of Mr Karl Otto Pöhl, former president of the Bundesbank, in the smart town of Kronberg just outside Frankfurt.

The party was to celebrate Mr Pöhl's 64th birthday, but the mood turned sombre when Mr Hilmar Kopper, the chief executive of Deutsche Bank, mentioned to fellow guests that all was not well with Metallgesellschaft, Germany's 14th-biggest industrial company.

The day before the party, Mr Heinz Schimmelbusch, the Austrian who was then Metallgesellschaft's chief executive, had visited Deutsche Bank with an urgent request for cash to stem mounting liquidity problems at MG Corp, the company's US trading subsidiary. That weekend, officials from Deutsche Bank and Dresdner Bank, the two biggest banks in Germany and among the main shareholders in Metallgesellschaft, put together DM1.5bn (£580m) of emergency funds to cover mounting cash-calls triggered by MG Corp's speculative trading in oil derivatives.

"A technical problem," is how Mr Kopper described the liquidity crisis a few days later.

This original assessment proved an understatement. Within weeks, Mr Schimmelbusch had been sacked, together with his finance director, and four other board members had left. Metallgesellschaft restated its losses for the year to the end of September at DM1.8bn and said it may lose at least DM1.5bn from its exposure in oil-futures markets. This brought the company to the brink of collapse. Bank creditors recently agreed to fund a DM3.4bn rescue package for the Frankfurt-based metals, mining and industrial conglomerate.

A corporate implosion of this scale is rare in Germany. Not since the AEG electricals group went bankrupt in 1982 has so large a German company come so close to the edge. "The whole thing came as a dreadful shock," said one banker last week. "Everybody is asking how it could happen."

The affair, afflicting a company with annual sales of DM27bn and 58,000 employees is not merely embarrassing. It has prompted an unusual degree of soul-searching among senior German bankers and managers confronted with a public demonstration of their own failings.

The story of the company's debacle is a complex tale of one man's personality and the inadequacies of Germany's system of corporate governance. At the centre is Mr Schimmelbusch, a Jesuit-educated businessman who could deflect criticism from older bankers with the same success that he could charm the foreign financial community. His command of English made him a favourite with Anglo-American financiers, few of whom remained unpersuaded by his rhetoric.

When he took the job of chief executive of Metallgesellschaft in 1988 after 15 years with the com-

pany, he was regarded as just the man to inject a new lease of life into what had become a dull operation. "He was seen as a Messiah who could at last get things done," said a senior Frankfurt fund manager.

He quickly embarked on a bold diversification strategy which took the group away from its old core businesses of mining and metals into areas such as environmental technology. The strategy led to an explosion of sales until 1992. But his acquisition spree failed to deliver the immunity to recession in the old cyclical businesses which it was designed to achieve. Metals prices fell, triggered by cheap imports from the former Soviet bloc after the end of the cold war. Losses of DM124m in 1991-92 at Kolbenschmidt, the car components subsidiary, and of DM290m for the same period at Schless, the machine tools offshoot, compounded heavy losses from metals smelting and mining. Substantial investment in modernising the group's smelting facilities compounded the misguided strategy. As a result, profits tumbled, debts mushroomed (the group owes more than DM9bn) and cashflow evaporated.

To generate revenues Mr Schimmelbusch aggressively promoted MG Corp's risky oil-futures activi-

ties in the US. The volume of oil which MG Corp contracted to deliver on a long-term basis is understood to have increased tenfold to nearly 170m barrels during the course of last year.

It was a gamble which failed when the oil price turned down, leaving its hedging strategy exposed as inadequate. "He was like a juggler who had to keep bringing more and more balls into the air to keep the public happy," said a banker.

Mr Schimmelbusch's ability to keep the act going almost until the last minute - barely a month before his dismissal - was his chief executive was renewed for another five years - highlights at least two important failures of control.

The first is that Metallgesellschaft's financial control systems failed to avert MG Corp's adventures in the US oil-futures market, or to provide any indications of problems until it was too late.

This is not solely an internal issue. As Mr Tyl Necker, president of the BDI, the Federation of German Industry, remarked last week, increasing numbers of German industrial companies engage in financial market dealings, in part to counter weak demand for their traditional products. "Those companies which do this sort of thing

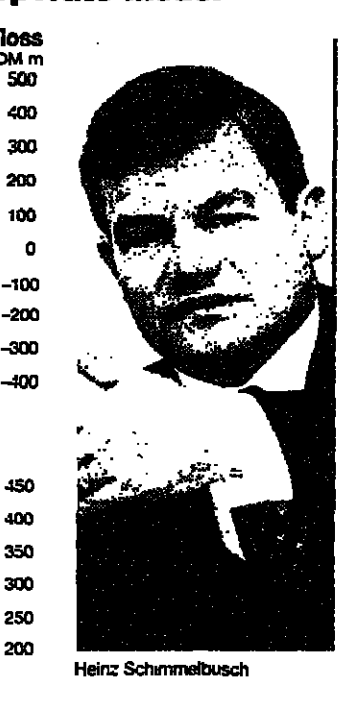
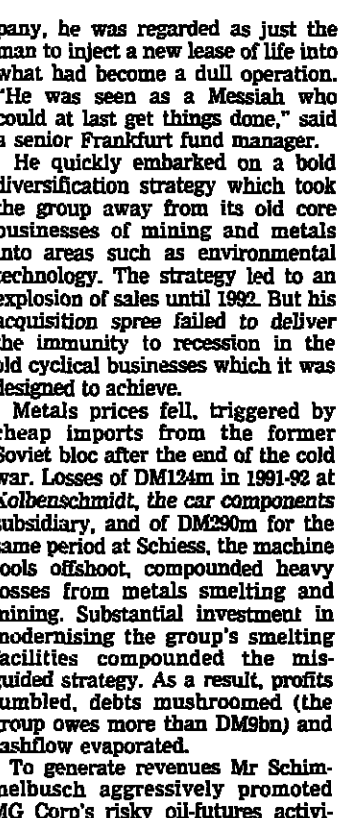
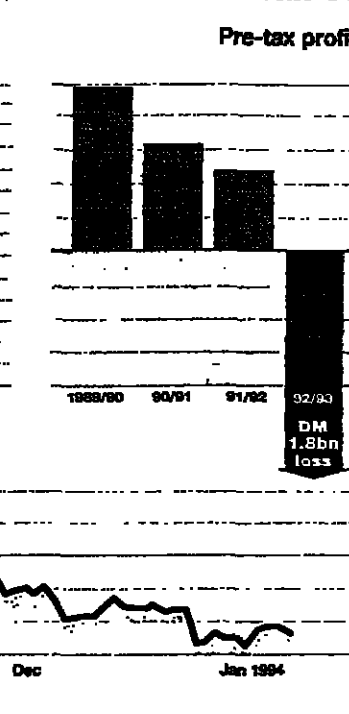
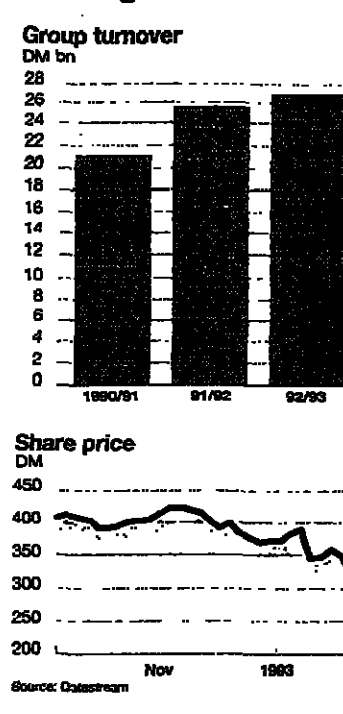
must be certain that they introduce tough internal rules, and ensure that they are adhered to," he said.

The second failure of control is broader: it is that of the two-tier board system. Under this system, responsibility for a company's affairs is divided between the supervisory board, in charge of supervising management performance, and the management board, responsible for the day-to-day running of the business. In the case of Metallgesellschaft, the supervisory board did not prevent Mr Schimmelbusch's risky ventures.

Some 35 per cent of the company's shares are owned by Deutsche and Dresdner banks, Daimler-Benz and the insurer Allianz, all prestigious names in German finance and industry. Their representatives sit on the supervisory board, together with a crop of distinguished outsiders. The board is chaired by Mr Ronald Schmitz, the Deutsche Bank head of corporate finance. He has yet to make any public statement on the affair though a formal company statement last month said that Mr Schimmelbusch was sacked for failing to keep his supervisory board informed of developments at MG Corp.

Mr Schimmelbusch's ability to deliberately mislead when his back

Metallgesellschaft shock to the German corporate model



Heinz Schimmelbusch

was against the wall was demonstrated on Friday December 3, the day he visited Mr Schmitz with an urgent request for money. Mr Schimmelbusch was asked by the FT to comment on rumours that MG Corp was in difficulties and that it needed extra funds. He denied the rumours, adding that the meeting that morning was routine. He invited the FT to see documentary proof that all was well at the US subsidiary, but when pressed the meeting never materialised.

Critics of the German twin-board system argue that supervisory board members are often caught off guard because they enjoy such close relationships with the managers they are supposed to supervise.

"The position of influence enjoyed by banks on supervisory boards is open to question as never before," Mr Otto Lambdorff, a leading member of the Free Democratic party and chairman of DSW, Germany's largest small shareholder organisation, told the FT this week. "They look after the company's capital market issues, they advise on mergers and acquisitions, and in some cases they own big share stakes as well. Is it not surprising that their judgment as supervisory board members is clouded?"

These comments are pertinent in the Metallgesellschaft case as Deutsche and Dresdner banks both backed Mr Schimmelbusch's acquisition spree, reaping plump advisory fees and interest income on loans in the process.

Mr Lambdorff argues that more supervisory board members should be independent. To reduce the influence of banks, he would like to limit the number of different supervisory board seats occupied by one individual from 10 to four, and to ban banks from owning more than 10 per cent of industrial companies.

Other critics of the board system have suggested alternative reforms. Professor Ekkehard Wenger, a noted shareholder activist, says that Mr Schimmelbusch was able to shield the poor performance of the company behind the boardroom. Had the true state of operating performance been obvious in 1991-92, as it would under US accounting rules, it is unlikely that Mr Schimmelbusch would have survived so long as chief executive, he said.

One banker who attended the rescue talks said he hoped that the affair would act as a catalyst for greater openness in German corporate life. This may be optimistic. The first reaction of German bankers has been to batten down the hatches: few details have so far emerged from the boardrooms of Deutsche and Dresdner banks of the postmortem currently under way.

The big banks' close and extensive links with industry are at the heart of the German model of corporate capitalism and are unlikely to be relinquished without a fight. For decades the world has admired this model. But the Metallgesellschaft debacle has exposed the fault lines at the heart of the system.

Robert Mauthner examines the frustrations caused by cuts and savings in the Foreign Office

Diplomatic disquiet

There was almost a whiff of revolution in the air in Whitehall, when it was announced last week that Mr Douglas Hurd, the UK foreign secretary, would address the massed ranks of his department - at the request of the staff trade unions.

It is an unprecedented event and one that many of 1,000 London-based staff, who will gather today in the grandiose surroundings of the Durbur Court, restored to its original Victorian splendour a few years ago.

The fact that Mr Hurd has agreed to address such a meeting demonstrates that he recognises diplomats may have genuine cause for anxiety, not only about their career prospects but about the future of the foreign service as a whole.

Though the damage done to the Foreign and Commonwealth Office's reputation by Mrs Margaret Thatcher's constant sniping and criticism has largely been repaired by the present government, financial constraints

have provoked fresh worries.

That does not mean that there is an atmosphere of militancy in King Charles Street. Most of the staff, and even their unions, concede that there is a good case, as well as a good foreign secretary. One or two have even been heard to say, somewhat rashly, that he is "the greatest foreign secretary this century".

Others, much less flattering, merely consider that he is very successful at not rocking the boat, but that he has not shown an inordinate amount of imagination in the formulation of policy. One middle-ranking diplomat, who refuses to attend today's meeting, said it would be "just like a journalist listening to a press release being read out by a Foreign Office spokesman".

Yet almost everyone agrees that Mr Hurd has done his utmost to defend his department against the assaults of the Treasury, and that

he was particularly successful in his damage limitation exercise during last autumn's public expenditure survey.

Nevertheless, in spite of small increases in money terms during the three-year period covered by the survey, 1989-96, there will be a cut of 11 per cent in real terms in the FCO's overall budget over the period, fuelling fears of reductions in both posts and staff.

Though the administration says that it does not "anticipate" reductions of diplomatic posts "at the moment", there can be little doubt that this will happen in the longer run, in spite of the opening of 20 new posts since 1990.

Undeniably, there has been a steady decline in Britain's overseas representation over the past decade. The FCO's overall manpower fell by 19 per cent between 1980 and 1990, though it has since risen again by some 5 per cent, as a result of the

opening of new posts and the introduction of new visa regimes.

Comparisons with countries of similar size and importance, such as France and Germany, show that Britain is falling behind. Last year, Britain had 217 posts abroad, compared to France's 291 and Germany's 230. At the same time Britain's overseas staff of 2,500 was much lower than France's 4,800 and Germany's 3,200.

Further concern among staff has been caused by the outcome of a recent management study which showed that the hours being worked by many officials were far too long - in some senior cases as much as 70 or even 80 hours a week, instead of the 41 hours for which they are paid.

In addition, a market-testing programme covering 12 internal services has raised fears that more jobs will be lost or staff transferred. The services include language train-

ing, information technology, research, security, transport and some aspects of communications, and involve about 15 per cent of the Foreign Office's staff. In the first year of its operation, the programme, which opens up these services to competitive bidding by outside companies, has altered the FCO to achieve savings of £8m.

A blockage of appointments to senior grades, caused by the fact that retirements, usually about 15 to 18 annually, will be much lower over the next two years, has added to the malaise of a service which recruits only about 20 "fast-track" candidates out of more than 2,000 applicants each year.

It is clear that, even if there is unlikely to be any blood on the elegant pavement of the Durbur Court, Mr Hurd will nevertheless be unable to evade answering some delicate nitty-gritty questions. Morale-boosting statements about the status and continued role of the Foreign Office on the world stage, though welcome, will hardly be sufficient.

Banking on failure

Who should determine the performance-related pay of TSB directors? The non-executive directors? The shareholders? TSB's customers even? The latest signs are that the UK's sixth largest bank intends to branch out and give its opposition a say as well.

The dear old TSB has introduced an executive bonus scheme which will mean that the pay of chief executive Peter Eilwood and his top team will be affected by how the bank's financial performance compares with an average drawn from a select group of competitors, including Abbey National, Lloyds and Royal Bank of Scotland.

It may be a laudable attempt to restrain top people's pay at a time when the banking sector is generating increasingly vast profits. But it does add a rather random and extraneous element into the calculations. After all, what good is it to TSB shareholders if everyone else flops in 1994-95?

Beering up

Philanthropy is not yet dead it seems, particularly when it's good for the corporate image. Miller Brewing, the Philip Morris

subsidiary, last week helped those struck by the recent natural calamities in the US.

First it steamed into the LA earthquake by donating two production lines at its Irwindale, California, brewery, to produce 2m bottles of water instead of beer. Then it ceased beer production for two days at its flagship plant in Milwaukee, America's beer capital. It said it was worried for its workers' safety when temperatures in the upper mid-west fell as low as 30 degrees below.

Poisoned chalice

Who will get the job of selling Europe to the Brits? The search for a candidate to run the European Commission's London office is looking increasingly flawed, at least one prospective applicant has declined the offer. The recruitment has stalled thanks to an internal EC argument over whether to pick an in-house candidate or gamble on an outsider.

Sir Leon Brittan, the EU's chief trade negotiator and senior UK commissioner, believes that spreading the net will ensure the best quality. Other bureaucrats, notably David Williamson, secretary general, are pushing for an insider to run the 25-strong London office. So Geoff Martin, the temporary stand-in, must rate



He's not licensed to burn red tape but he's cheap

his chances. However, the post has been unfilled since last May which raises the question of whether it is being kept open for an unlucky Tory MEP who loses a seat in the forthcoming European elections. Surely not.

Concert party

Chris Patten, Hong Kong's governor, is always banging on about the virtues of a free press. But not all his officials agree, judging by an unusual alliance

to stop the film premier of the BBC documentary, *Chairman Mao: The Last Emperor* in the colony's Foreign Correspondents Club.

It's no great surprise that Xinhua News Agency, China's official mouthpiece, didn't want the film to show the offending film tonight. But the FCC was picked to find the local Hong Kong censor was also being awkward.

Such interference has upset Philip Bowring, the ex-editor of the *Far East Economic Review* and FCC president, who opines that Hong Kong's tough censorship law is an example of the sort of legislation the governor ought to be repealing, not enforcing. No doubt Patten can be relied upon to turn a blind eye if he wants to keep opinion formers on side.

Parkinson's law

There they go again. A pillar of the Tory establishment, Lord Parkinson, took to the airwaves yesterday to repeat the hoary old allegation that Lord Healey, Labour's last chancellor of the exchequer, once promised to tax the rich "until the pips squeak". Lord Healey, speaking on the BBC's *World This Week* programme, denied he ever said it and bet Parkinson £100 to prove otherwise. He has collected on a similar bet with William Keegan,

the Observer's economics editor. But just in case, Patten will be getting a letter to remind him that he accepted the wager on air.

Debating points

However, Lord Healey has more pressing things on his mind than Lord Parkinson's latest gaffe. When Observer contacted him yesterday he seemed more incensed by Simon Jenkins' suggestion, in *The Times* on Saturday, that there have been no decent English novels based on life in a provincial town since George Eliot's *Middlemarch*, whose serialisation on BBC TV currently is causing much debate among the chattering classes.

What about the works of Arnold Bennett or D H Lawrence, to name but two, asks Healey?

Men only

What have Orthodox Jewry and Islamic fundamentalists got in common? More than you might think. A local bus company in Jerusalem has just caved in to demands from a section of its users and introduced its first segregated bus, in which men and women are kept apart by an opaque curtain. Oh, and guess who gets to sit up front next to the driver under the new arrangement?

Free Citizens' party challenges German political establishment

With plentiful supplies of coffee and cakes, and a fair amount of procedural confusion, 120 worthy German citizens gathered yesterday in an unremarkable hotel in Wiesbaden, the eminently respectable capital of the state of Hesse, to found the latest challenge to the German political establishment.

The Bund freier Bürger (BFB), or Free Citizens' Alliance, plans to campaign for freedom, the market economy, and the preservation of the Deutsche Mark in the forthcoming European elections in June, and in the general election for the German Bundestag in October.

If it were not for the third of those campaign issues, the exercise might be dismissed as a hopeless tilt at the creaking windmills of German democracy. But the desire to save the D-Mark from being swallowed up in a nebulous European currency unit, created by the Maastricht process of economic and monetary union, is one shared by about 75 per cent of the German population. It could prove a vote-winner at a time of widespread disaffection with the main parties of the political establishment.

There is also more than a

Saving the D-Mark could turn out to be a vote-winner, writes Quentin Peel from Wiesbaden

sneaking suspicion that the new party is trying to steal a few leaves from the book of Mr Jörg Haider, the rightwing leader of Austria's Freedom party, who has gained wide support and notoriety by appealing to latent xenophobia.

The BFB is the brainchild of Mr Manfred Brunner, former chief of cabinet to Mr Martin Bangemann, the senior German commissioner in Brussels and principal challenger of the Maastricht treaty before the German constitutional court last year.

Mr Brunner looks more like a bank manager than a Don Quixote, with a round, earnest face and spectacles. Yet he has lost his job and risked his career to fight the treaty, and the overwhelmingly pro-European Union establishment. He says Mr Haider is "a sensible man with interesting ideas".

He is regarded as a threat in some quarters. The founding meeting of the party had to be

moved at the last minute from the far more evocative surroundings of Goethe, in east German Thuringia, because of a bomb threat to the Hilton Hotel.

Mr Franz Schuster, the Christian Democrat interior minister in the state, declared the proposed party to be more dangerous than either of the far rightwing Republicans, or the even more extreme National Democratic party (NPD).

Yesterday's meeting could scarcely have been called threatening. The participants, mostly male and with an average age of 50, were mostly solid representatives of the bourgeoisie, small businessmen, the self-employed, professionals and professors.

"They are all frustrated with the political process, and with their former political parties. All the parties have become the same," said Mr Ralf Gutmann, president of the national dentists' association. "It is not

bad to be conservative. It is about preserving something."

"The word bourgeois is not a swearword any more," said Professor Bernd-Thomas Ramb, who describes himself as an entrepreneur. "It means a consciousness of freedom with responsibility." Mr Brunner is clear that his main platform is anti-European. He does not want to dismantle the European Union, but he wants to make sure it is no more than a loose confederation of nation states. He does not want to lose the D-Mark, and he wants to make sure Germany's money pays first of all for German unification, before it is redistributed round the rest of the EU.

His problem is that he is plunging into an increasingly crowded market place. Another "citizens' movement", the Hamburg-based Stadt Partei - "Instead of a party" - decided on Saturday to organise on a national basis.

As for the far right, Mr Brunner will have to contend with the well-organised Republicans and the Deutsche Volksunion (DVU) and the NPD. They could split the conservative, nationalist vote, and all fail to gain the 5 per cent support needed for a seat in any parliament.

Japan's LDP faces call to back reform

By William Dawkins in Tokyo

Members of Japan's ruling coalition today meet the opposition Liberal Democratic party in an attempt to revive political reform plans, crippled by a revolt in the alliance over the US summit.

Proposals for the most radical reorganisation of Japan's scandal-tainted democracy for more than 45 years were voted down at their final hurdle in the upper house of parliament on Friday.

A defiant prime minister Morihiro Hosokawa, who has staked his job on reforming the political and electoral system, vowed at the weekend to soldier on. Mr Hosokawa also said he would, as planned, meet Mr Bill Clinton,

the US president, for the US-Japan summit on February 11, to conclude talks on opening Japan's market to imports.

The government would make "serious and vigorous efforts" to launch economic stimulus measures, the US summit, said Mr Hirohisa Fujii, finance minister. Fears that an urgently needed economic stimulus package will be delayed beyond its expected arrival in the next few days are expected to trigger a fall in Japanese share prices today.

Mr Hosokawa hopes to persuade the LDP to form a joint panel of the upper and lower houses of parliament to agree to a watered-down version of his four reform bills. This will be dis-

cussed today by directors of the lower chamber's steering committee, from the government and LDP.

Such a panel would need a two-thirds majority for a new scheme, before it could pass the amended plan to both houses for adoption by simple majority. However, the chances of success are overshadowed by the fact that an unknown number of LDP politicians oppose the reform plan's proposed abandonment of Japan's unique multi-seat constituency system.

The surprise vote against the plans, at what had appeared to be the climax of a five-year national debate, provoked a stream of support for political reform

in the weekend press.

The next stage is unclear. Several Japanese political observers yesterday predicted that Mr Hosokawa might resign after the US summit and then hand over the reins of the coalition to Mr Tsutomu Hata, the foreign minister, or to Mr Masayoshi Take-mura, the chief cabinet secretary. However, this would be only an interim leadership, according to Mr Minoru Morita, a popular political commentator, who believes that the present drama is an early step in a political realignment that will take many years.

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Israel and PLO see signs of progress

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zariand next Sunday.

Mr Arafat said: "There are some points we haven't agreed on but there are some obstacles we managed to overcome."

Mr Yitzhak Rabin, Israeli prime minister, endorsed the view that progress had been made in Oslo. "I believe an Israeli clarification and its position in principal matters of security has begun to bear results," Mr Rabin also said he was ready to meet President Assad without any prior conditions in order to advance the peace process. Israeli newspapers reported

yesterday that both Israel and the PLO had made concessions in Oslo to edge closer to a protocol providing for implementation of the peace accord and an Israeli troop withdrawal from the Gaza Strip and Jericho. The protocol has been delayed for more than two months as Israel and the PLO argued about who should control border crossings, the size of the Jericho area and protection of Israeli settlers.

Officials said in order to reach a compromise, Mr Peres agreed to make an Israeli presence at border crossings "invisible" and conducted by advanced electronic technology.

VW chairman may sue former Seat managers

Continued from Page 1

first quarter of the current year.

But he told a German newspaper the deficit would be a fraction of the DM1.25m loss booked in the same period of 1993, and that the group would return to profit by the year's end. Seat was the only subsidiary expected to remain in loss, with a deficit of DM200m he said.

The group's forecasts of a return to health are based partly on the planned introduction of shorter working time at its six German factories. VW has claimed the so-called "four-day week" scheme would save it

DM1.8m a year in labour costs. However, details of the controversial plan are yet to be agreed with social security officials and trade unions.

Negotiations with trade unions had resumed on January 12, when the factories reopened after an extended new year holiday, and the new arrangements were expected to be introduced by the end of February.

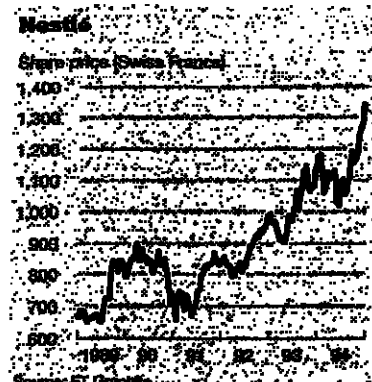
Group officials were also still in talks with government social security officials. The company has claimed that some workers qualify for unemployment pay or other state aid during the lay-off.

THE LEX COLUMN

The balance in power

Professor Stephen Littlechild, the electricity regulator, has yet to produce his verdict on the generating companies, despite a promise to deliver it by mid-January. His report may not now be published until next month. Investors, probably correctly, have concluded that the delay implies that talks are still going on which will void the companies being referred to the Monopolies and Mergers Commission. The regulator seems to want National Power and PowerGen to agree to dispose of some generating plant and accept a voluntary cap on spot electricity prices. Since the companies probably have more to lose through an MMC reference, they are under pressure to agree. On the other hand, practically none of the important political constituencies now want a reference, so the regulator is a little hemmed in.

If a deal is done, there will probably be some impact on profits. The generators' high dividend cover and provisions do, however, offer a defence. Even so, with the shares now yielding 20 per cent less than the market average, a good part of the growth prospects are already in price. By contrast, the regional electricity companies are still cheap, with above average yields, since investors regard them as pure utilities. Yet their financial strength and dividend growth prospects are not those of a utility. The strong cash flow and low ratings may soon attract predators. If the RECs do not move quickly to unlock the value of their National Grid holdings, and return other excess capital to shareholders, someone else may do it for them.



restructuring at its US operations appears to be bearing fruit. However, Nestlé's great appeal stems from its exposure to fast-expanding economies in Asia and Latin America. With 28 per cent of sales coming from emerging economies, Nestlé is the best placed food group to ride the wave of global growth.

Nevertheless, the company has much work left in the old world. It has yet to make sense of weak market positions in European pet food, canned products, and frozen foods. This suggests higher restructuring charges may disfigure its accounts in years to come. Despite its prodigious cash flow, Nestlé may also be temporarily constrained by year-end gearing of around 55 per cent. That hardly bothers it in the normal run of events, but suggests it would have to use paper to consummate any grander designs on L'Oréal.

cause an avalanche of cash to slide from money market funds into equities. That, though, will be at least partially absorbed by new equity issues. Quite apart from the FF55bn of privatisation sales pencilled in for this year, the corporate sector will continue to launch rights issues to ease strained balance sheets.

The market will thus probably remain jumpy until the economic uncertainties are resolved. The savage treatment handed out to Alcatel-Alsthom after issuing a profits warning suggests it will be unforgiving of any disappointment. That makes privatisation of Elf Aquitaine a particularly delicate task. Its payment of an uncovered dividend shows how keen it is to underpin the shares. But the French government cannot afford to be over-ambitious about the sale price.

IMI

The privatisation of IMI offers a rare chance to buy shares in a financial institution which has managed to accumulate capital rather than faster it away. Its caution in corporate lending in Italy has led to steady erosion of market share but contributed to unusually stable profits. IMI has also avoided more than token exposure to recent corporate failures - such as Ferruzzi and Efim - which have blighted some of its peers. With a BIS capital ratio of over 20 per cent, though, IMI looks overcapitalised.

Since it has no branch network and is dependent on wholesale markets, a strong balance sheet and good credit rating contribute to a lower cost of funds. The concentration of loans to a handful of groups, albeit state-owned, also argues for a strong capital base. As the privatisation programme continues, many of these loans will anyway lose their government guarantees, so the ratio will tend to fall. Even so, investors might wonder whether a capital ratio twice that of broadly comparable institutions, such as Credit Lyonnais of France, is really necessary.

This embarrassment of riches leaves IMI well placed to regain market share in corporate banking as the Italian economy turns. But its real ambitions lie elsewhere. Fund management, mutual funds and life insurance are already producing good profits. If IMI can successfully manage the transition from corporate bank to fully-fledged financial services group without recourse to shareholders, its cautious approach to lending will not have been in vain.

Nestlé

Despite their strong rise in recent weeks, Nestlé shares have been thrown into the shade on the Swiss market as financial stocks have surged ahead. But Nestlé's forecast of a 5 per cent increase in 1993 earnings confirms its solid progress. Trading momentum has picked up since last autumn and Nestlé will report a 1.7 per cent increase in volume growth for 1993. That falls short of its target rate of 4 per cent a year but compares favourably with most international food groups.

Nestlé has been making good volume gains in higher value-added areas, such as pharmaceuticals, which will help protect group margins. But its markets in Europe have remained tough. Delays in dealing with Perrier threaten to dilute earnings, but

France

After the 22 per cent rise in the CAC 40 last year, the French bourse has started 1994 in more subdued mood. As elsewhere, the worry is whether the economy can deliver the performance the market's rating now demands. The French government's obsession with a strong franc at the cost of high real interest rates has squeezed the economy hard. Unemployment remains above 13 per cent. Consumer confidence is fragile.

Official statistics suggest the French economy is on a slight upward track. But there could be a sharper rebound in corporate earnings this year. The high levels of provisioning, which caused corporate earnings to under-shoot expectations last year, could produce a suspiciously strong recovery in 1994. The other great hope is that continuing interest rate cuts will

FT WEATHER GUIDE

Europe today
Depressions will continue over the northern Atlantic, Scandinavia and most of western Russia. A strong and cool westerly airflow will bring cloud and showers to Denmark, northern Germany, Poland and the Baltic states. Finland and north-west Russia will have snow. There will be rain in Ireland, England, France and Bavaria. The Czech Republic, Hungary and Rumania will also be rainy with sleet in the Ukraine. High pressure in the Azores will bring light winds and lots of sun to most of Portugal and Spain. Italy and south-east Europe will also be sunny.

Five-day forecast
All areas between the Norwegian Sea and north France will be unsettled. There will be rain and strong westerly winds in the British Isles, southern Scandinavia and western and central Europe. Norway, Sweden and Finland will remain cold. The Azores high pressure system will gradually move into the Mediterranean bringing sunny spells and pleasant afternoon temperatures.

TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp	Location	Temp
Madrid	14	Cardiff	10	Frankfurt	10	Malta	15
Algiers	15	Geneva	8	Manchester	9	Rio	29
Amsterdam	10	Cologne	9	Madrid	18	Riyadh	20
Athens	14	Dublin	7	Manila	28	Rome	13
Bahia	25	Edinburgh	5	Mexico City	17	Sao Paulo	11
Bangkok	33	London	8	Moscow	1	Singapore	30
Barcelona	15	Luxembourg	8	Nairobi	25	Stockholm	1
Beijing	3	Madrid	14	Perth	14	Sydney	25
		Paris	11	Prague	4	Taipei	15
		Warsaw	11	Wellington	12	Tokyo	12
		Zurich	8				

Forecast by Meteo Consult of the Netherlands

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

Tomorrow
Mostly cloudy with rain in the north and west. A cold front will move in from the north, bringing rain and strong winds to the British Isles and northern Europe. The rest of Europe will be mostly sunny with some clouds in the south.

Day after tomorrow
A high pressure system will move in from the west, bringing a period of settled weather with some sun and light winds. Temperatures will be cooler than today.

Three days after tomorrow
The high pressure system will continue to dominate, with a period of mostly sunny weather and light winds. Temperatures will be similar to the day after tomorrow.

Four days after tomorrow
A new depression will develop off the west coast of Africa, bringing rain and strong winds to the British Isles and northern Europe. The rest of Europe will be mostly sunny with some clouds in the south.

Five days after tomorrow
The depression will move further east, bringing rain and strong winds to central and eastern Europe. The British Isles will be mostly sunny with some clouds in the south.

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Issue Price: 100 per cent.

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Issue Price: 100 per cent.

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December, 1993

Return to profits predicted for steel

By Richard Waters in New York

Some of the biggest US steel companies are predicting a continuing sharp upturn in their operating performance this year, in the process pushing the industry as a whole back into profit after one of its most prolonged periods of losses.

Results released by two of the six big integrated steel producers last week indicated that soaring demand from car-makers and the construction industry had already driven the steel companies' output and prices sharply higher.

US Steel, the US's biggest producer, said sales in the final three months of last year were 28 per cent higher than a year before, at \$1.5bn, helped by an 18 per cent rise in the amount of steel shipped and a series of price rises. "The market outlook is solid, with order book levels high through the first quarter," added Charles Curry, chairman of US Steel's parent company, USX.

Robert Darnall, chairman of Inland Steel, which turned an operating loss of \$173m in 1992 into a profit of \$27m last year, was even more optimistic. "We expect a continued improvement in our operating results of at least the same magnitude as we experienced in 1993," he said.

The heightened demand for steel has meant that producers have been operating at near-full capacity, supporting the price rises introduced last year. US Steel said it was operating at 98 per cent of capacity in the final months of 1993, compared with 84 per cent at the end of 1992. Inland Steel, held back by the shut-down of a blast furnace and coke plant, sagged to 74 per cent.

The demand for their products in the US has already made the steel companies among the best-performing on Wall Street so far this year.

US Steel on Friday reported net income for the last quarter of 1993 at \$124m (\$1.87 a share), compared with an after-tax loss of \$235m (\$3.40 a share) the year before. Inland Steel made a net loss of \$20m (79 cents a share), compared with a net loss of \$67m (\$2.15 a share) the year before.

China leaps forward with mergers

By Tim Burt

China and Russia have emerged as centres of international takeover activity with overseas companies investing more than \$22bn there in the past 12 months, according to accountants KPMG Peat Marwick.

The firm's annual survey of global takeover activity, published today, shows that investors in China took part in partial acquisitions and joint ventures worth \$15.2bn, up from \$5.2bn in 1992. The value of companies purchased outright rose from \$69m to \$287m.

The increase meant China was second only to the US in selling equity stakes and joint venture opportunities. Russia, where the value of partial takeovers increased from \$349m to \$6.6bn, was ranked fifth, behind Britain and the Netherlands.

Mr Richard Agutter, chairman of KPMG's corporate finance department, warned that the pace of future investment in Russia could be undermined by right-wing electoral gains. Uncertainties over the political future of Hong Kong had slowed UK investment in China, he added.

The total value of worldwide cross-border mergers and acquisitions, meanwhile, declined 14.6 per cent to \$64bn last year as many countries endured recession. KPMG said uncertainties over the Maastricht treaty, the North American Free Trade Agreement and the General Agreement on Tariffs and Trade talks also persuaded companies to postpone M&A plans.

Japanese companies made some of the sharpest cutbacks, with the value of their outright acquisitions falling by more than 86 per cent from \$4.3bn in 1992 to \$558m last year.

The value of partial takeovers and joint ventures by Japanese groups also fell sharply - down more than 70 per cent to \$4bn. Mr Agutter blamed the decline on Japan's slowing domestic economy, and he said similar factors held back activity in France, Germany and Italy.

The value of outright acquisitions by French companies fell by almost half to \$5.9bn; German groups cut purchases by 21 per cent to \$3.2bn; while the Italian total fell more than 92 per cent to \$468m. "Companies in all these countries are being more cau-

tious. They don't want to buy outright any more, they prefer to share the risk," he said.

Britain and the US, however, increased M&A dealings. Outright acquisitions by British companies more than doubled to \$13.5bn, while purchases by US groups rose from \$1.45bn to \$15.3bn.

Mr Agutter highlighted deals such as Unilever's £220m takeover last December of Ortiz-Miko, the French frozen foods manufacturer, and BT's decision to take a \$4.3bn stake in MCI as examples of increased activity. He said confidence in North America and the UK

was also reflected by an increase in "global capital flows" - KPMG's valuation of total purchases and disposals. This figure rose from \$203bn in 1992 to \$216bn last year.

Forecasting increased activity in 1994, Mr Agutter said there would be more joint venture agreements rather than outright acquisitions. The amount spent by companies on European cross-border mergers fell by 40 per cent last year to £631.4m (\$35.1b), the lowest level since 1989, according to a survey by Translink, the cross-border M&A adviser.

Europe's governments are finding both political and commercial reasons for turning to privatisation

State-run groups get used to new identity

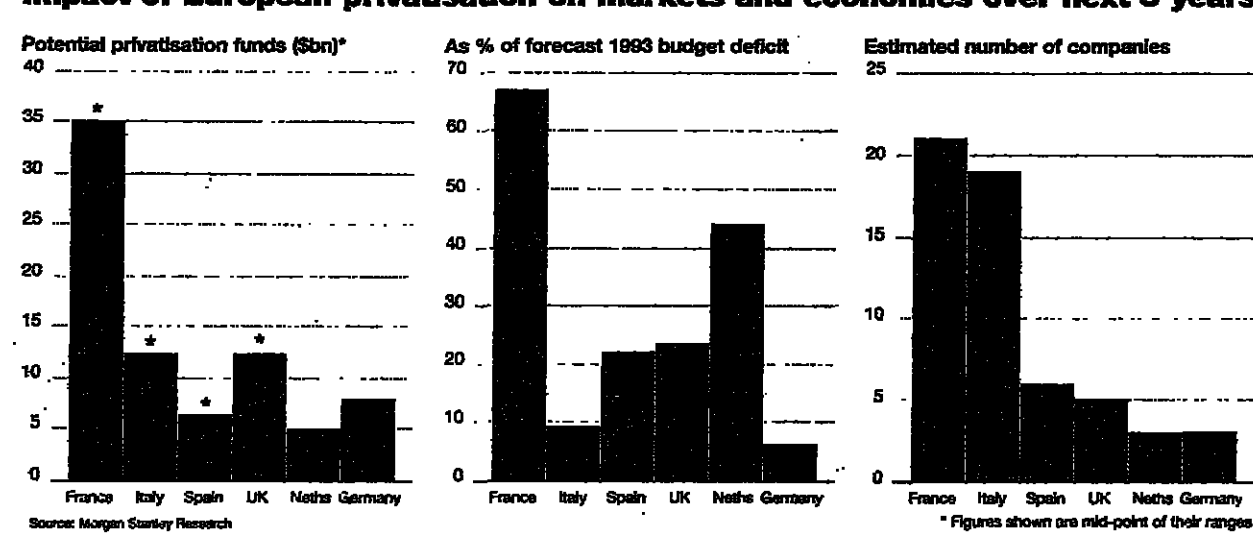
Privatisation in Europe seems to have acquired an unstoppable momentum. Across the Continent, the idea that the state should own or operate commercial assets has lost its political force. In some cases, governments are driven to privatise by the need to reduce their ballooning deficits. But there is another powerful and deep-seated argument, that of commercial logic.

In a growing number of sectors, from telecommunications to cars, there is competitive pressure on companies to form cross-border alliances. The private sector is reluctant to get involved with state-owned companies. For many of Europe's state-owned giants, privatisation has thus become a condition for staying in the game.

If the political argument is secondary, it is still important. In Italy, for instance, it matters a great deal whether privatised companies should end up controlled by a handful of old-style industrial empires or should have a wide shareholder base. If the former, runs the argument, the country cannot put its scandal-ridden past behind it. Thus, privatisation becomes in itself a political weapon, as it was in the UK in the early 1980s.

FRANCE: The French programme, launched last October by the centre-right government of the prime minister, Mr Edouard Balladur, is Europe's largest. It involves 21 public sector groups and should raise more than FF250bn (\$42.80bn). The implications go far beyond a much-needed boost to budgetary receipts.

Impact of European privatisation on markets and economies over next 5 years



Source: Morgan Stanley Research

* Figures shown are mid-point of their ranges

Some of France's most powerful industrial and financial groups, such as Elf-Aquitaine, Renault and Union des Assurances de Paris, should soon be in private hands.

The private is also motivated by a desire to ease the shackles on state industry and encourage efficiency. "The French government should not be in the business of making cars," said industry minister Mr Gérard Longuet, referring to plans to privatise Renault. The programme has got off to a strong start. The first two privatisation issues - Banque Nationale de Paris, one of the country's biggest banks, and Rhone Poulenc, the chemicals group - were heavily oversubscribed by both individual and institutional investors. The biggest operation on the list,

the sale of most of the government's 51 per cent stake in Elf-Aquitaine, was launched last week.

The sale of a large part of public sector industry will mean an extension of alliances between French business groups. The absence of powerful pension funds, and the government's desire to ensure management stability and the French identity of privatised companies, has led to the development of the so-called *noyau dur* - core groups of long-term investors.

Some companies on the privatisation list, such as Rhone Poulenc, have behaved like private sector companies for many years. But the state will retain an influence. In the first few privatisations launched by the Balladur government, for

example, some of the core shareholders are themselves state-owned companies.

More directly, the government will retain a golden share in some of the privatisation candidates deemed to be strategically important or politically sensitive, such as Elf. Political influence may also work at a personal level. While avoiding a witch hunt of chief executives of public sector groups, Mr Balladur has installed his own appointees at several key posts.

GERMANY: The federal government in Germany is pressing ahead slowly but steadily with its privatisation plans, including its jewel, Deutsche Telekom, the telecommunications monopoly. The 16 state

governments, as well as local authorities, are showing far less enthusiasm with the notable exception of Bavaria.

The privatisation process for Deutsche Telekom, valued at between DM40bn (\$23.20bn) and DM60bn, is at the point of decision. Cross-party agreement is necessary to change the constitution, as it will be to sell the 51 per cent stake in Luft-hansa, the loss-making national airline. In both cases, it is not so much concern over future ownership of the assets that is holding up the process, as fears over the jobs and pensions of state employees.

The government's chief success so far has been in selling off random bits and pieces of the portfolio, rather than headline-catching jewels. In December, it sold its remaining 50 per cent of the Industrieverwaltungsgesellschaft (IVG), a property holding company, for some DM700m.

The most mature plans now are for the sale of the government publishing venture, Bundesanzeiger Verlagsgesellschaft, motorway service stations (Autobahn Rast und Tank AG) and Rhein-Main-Donau AG, which built the Rhine-Main-Danube canal, jointly owned with Bavaria.

The latter has promised to dispose of some DM2bn of its assets, with a deal already done on the sale of Bayernwerk, Germany's third-largest electricity utility. Other plum state shareholdings under fire include Lower Saxony's 30 per cent holding in Volkswagen, and North Rhine-Westphalia's 43.5 per cent stake in the Westdeutsche Landesbank, the most acquisitive of Germany's public sector banks. Neither of those Social Democrat-ruled states shows any sign of wishing to dispose of their lucrative investments, in spite of the acute financial squeeze on all their exchequers.

ITALY: After a series of false starts, Italy's ambitious privatisation programme began in earnest last year. The list of assets for sale covers the most successful subsidiaries of the big tri and Eni state holding companies. Disposals began late in 1993, with the privatisation of Credito Italiano, Italy's seventh-biggest bank, raising about L1,750bn (\$1,031.83m). In December, Eni followed with

Markets this week

Starting on page 16

PETER MARTIN: GLOBAL INVESTOR

We will know On Friday, when the GDP estimates are published, if the US economy was really growing at 6 per cent in the closing months of 1993. But recent geological and meteorological events mean that we don't have much idea about the first quarter of 1994. Page 16

PETER NORMAN: ECONOMICS NOTEBOOK

Little has been heard of the Group of Seven industrialised nations. But it could find an important role in the new debate about the worldwide impact of tax rises. Page 16

Bonds:

Scalers are asking whether Danish bond yields will fall below German yields after last week's cut in Denmark's discount rate. Page 18

Wall Street:

Simple faith in the staying power of current fundamentals - strong growth, low inflation and stable interest rates - resulted in a nearly perfect string of sessions last week. Page 21

Emerging markets:

The collapse of Venezuela's second-largest commercial bank raises questions about other Latin American banks. Page 17

Currencies:

The yen appears likely to be the focus of attention with the weak economy, political uncertainty and a continuing trade dispute with the US. Page 25

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This week: Company news

IBM

Reasons for Big Blue to feel more cheery

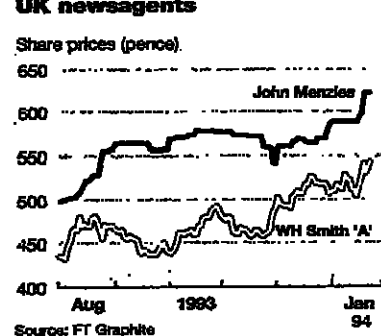
It's far too soon to cheer a sustained recovery at International Business Machines, but the stock market expects hard evidence in Tuesday's results that Big Blue is beginning to lose the worst of its big blues. For Mr Louis Gerstner, appointed to "the toughest job in corporate America" just under a year ago, the results will be the first indication of the effectiveness of a recovery strategy that has often seemed understated if not invisible.

The principal task has been to begin the transformation of a company designed to sell mainframe computers at high gross profit margins into an organisation able to survive on the low margins typical of the personal computer business. Mr Gerstner has already grouped mainframes, minicomputers and workstations together and placed a new emphasis on "client server" computing in a manner that would have been heretical in the old IBM.

He has installed a number of former colleagues in top jobs at the company, which traditionally would only have been filled by IBMers. Aware, no doubt, of his lack of detailed data processing industry knowledge, he has appointed Mr James Cannavino, who has run both IBM's mainframe and personal computer operations, as senior strategist.

The blizzard in the industry continues, however, and revenues are likely to be flat at around \$63bn. But with the bulk of the restructuring charges out of the way, the scene should be set for 2-3 per cent growth next year, about half the industry average. Earnings per share of about 63 cents are predicted for the final quarter of 1993, giving a full-year loss of 8 cents per share against a surplus, before restructuring charges and tax, of \$2.36. IBM UK was the company's blackest spot last year. Its performance in 1993 may be a litmus test of IBM's recovery.

UK newspapers



Source: FT Graphix

W.H. SMITH/MENZIES

Looking back to get future in the frame

Two of the UK's largest newspaper, books, stationery and music retailers - John Menzies and W.H. Smith - are expected to announce increases in interim profits this week.

Menzies, the Edinburgh-based retail and wholesale group, is expected today to announce increased profits for the six months to October from £3.8m (\$5.62m) to between \$4.1m and \$5m. As with other retailers announcing results, however, analysts are at least as interested in what it has to say about the Christmas trading period. They expect a reasonably strong performance from Early Learning Centre, Menzies' educational toyshop chain, but less strong trading from the Menzies chain, though sales are expected to have risen by up to 4 per cent.

W.H. Smith reports on Wednesday, and profits are expected to be up from £40.2m to £42m-£46m for the six months to November. Sales increases for the first half may be flattered somewhat by weak comparatives from the year before, with the second half comparatives getting more difficult. But strong trading is expected both in the first half and over Christmas from the UK retailing and distribution businesses, with sales rises possibly into double digits. Analysts suggest results from the US where Smiths has two Waterstones bookshops and a chain of hotel and airport kiosks, may be less good than hoped.

OTHER COMPANIES

Turnaround expected at Northern Telecom

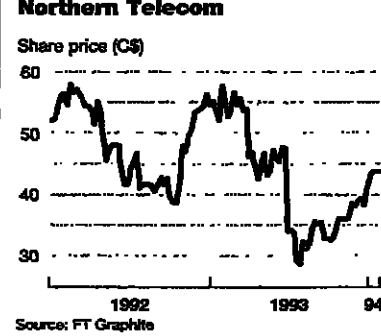
Northern Telecom, the Toronto-based telephone equipment maker, will report 1993 earnings tomorrow. Northern ran up losses of almost US\$1bn in the first nine months of the year, but has forecast a return to profitability in the fourth quarter. Investors have anticipated a turnaround by driving up Northern's share price on the Toronto stock exchange from a low of C\$27.50 in mid-1993 to C\$43.25 on Friday - a jump of almost 60 per cent.

US oil sector: The tumble in the oil price late last year is unlikely to make much of a dent in the earnings of the big US-based integrated oil and gas groups when they report fourth-quarter figures this week. Cheaper oil will boost profit margins in their refining and service station businesses - in some cases more than offsetting lower earnings upstream in exploration and production.

Encouraged by this, and the prospect of benefits from cuts in costs, Mr Paul Ting of Oppenheimer in New York has raised his fourth-quarter earnings estimates for a number of the majors: Amoco to 83 cents a share, Chevron to \$1.60 a share, Exxon to 96 cents a share, Mobil to \$1.40 a share and Texaco to 87 cents a share.

Lombard: Annual results for the year to September 30 are the first it has published since Mr Dieter Bock, its German joint chief executive, started the process of making the international trading group a "more normal company", in his words. Last autumn, he succeeded in having non-executives appointed to the board for the first

Northern Telecom



Source: FT Graphix

time in 20 years and in setting up an audit committee to review auditing procedures and financial performance. The figures will therefore be of particular interest to see if the audit committee's influence is apparent - and whether the company statement contains any tell-tale signs of the state of the battle between Mr Bock and his fellow joint chief executive, Mr Tiny Rowland. Analysts believe that profits from ongoing businesses doubled last year to around \$80m and that the figure including gains from disposals could be as high as \$140m.

Next/Burton: The state of UK retailers' Christmas trading statements draws to a close this week with announcements expected from fashion groups Burton and Next on Thursday. Analysts are expecting only a moderate increase in sales at Burton, with a stronger performance from department store group Debenhams than from the high street chains. They are also nervous that earlier hopes of margins being held may not be fulfilled. Next is thought to have had a strong Christmas, with sales up by as much as 15 per cent.

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December 31, 1993

COMPANIES AND FINANCE

Wainhomes heads for market with £90m tag

By Andrew Taylor, Construction Correspondent

Wainhomes, one of the 25 largest housebuilders in the UK, is poised to announce plans for a stock market listing, together with an offer for sale to raise money for expansion.

The exact amount to be raised has still to be decided, but the issue is expected to value the group at about £90m. It will be the latest in a series of fund raisings by large and medium-sized housebuilders seeking to exploit the recovery in the private housing market.

Nearly £500m was raised by UK housebuilders from rights issues alone last year, mostly to buy land. Last week Crest Nicholson, the Surrey-based housebuilder announced that it was raising £19.1m from a 1-for-4 issue at 88p a share.

Wainhomes was formed in 1989 by the merger of three privately owned housebuilders operating mainly in north-west England. These were: Wain-

mar, a former housebuilding subsidiary of Christian Salvesen based in Chester; Wainhomes, based in Standish near Wigan and, Lanley which operated in the Preston area.

The merged businesses have proved resilient during the recession, with pre-tax profits never falling below £5.3m for the year to March 31 1993. This compares with a peak of £8.8m during 1989-90.

The company is expanding into other regions, including Yorkshire, Hampshire and Dorset and the south-east Midlands.

Sales outside the north-west are likely to account for about 200 of the 900 homes expected to be built during the 12 months to the end of March.

Analysts expect pre-tax profits to be about £8m, with turnover likely to exceed £70m.

Net borrowings of £12m, representing gearing of about 25 per cent, are expected to be wiped out following the offer for sale. This will leave the group in a strong position to increase its landholdings of

2,400 plots, which at the current sales level is equivalent to just under three years' supply.

The company in recent years has concentrated on buying small sites, which are less attractive to large volume builders. It believes this approach has enabled it to achieve better margins as well as providing more outlets.

Institutions own 35 per cent of the shares. Another 33 per cent belongs to the family interests of Mr Bill Ainscough, owner of the original Wainhomes business. Mr Trevor Hemmings, former owner of Lanley, has a 17 per cent stake and 15 per cent is held by former managers of Wainmar.

Following the offer for sale and listing, Mr Gavin Reed, vice chairman of Scottish and Newcastle brewery group, is expected to become non-executive chairman of Wainhomes. Mr Ainscough will become deputy chairman. Mr Ron Smith will remain chief executive.

Eurotunnel in issue to Bombardier

Eurotunnel, operator of the Channel tunnel, is to seek the approval of shareholders in its British and French companies for a further share issue to Bombardier International, the Canadian manufacturer of its rolling stock, writes Charles Batchelor.

Up to 25m Eurotunnel shares were allotted to Bombardier in December under the settlement of its claim against Transmanche Link, the main contractor for the tunnel, for costs arising from changes in the rolling stock design.

The French arm of Eurotunnel, Eurotunnel SA, will hold an extraordinary meeting to discuss the latest share issue on January 31, while the UK arm, Eurotunnel, will hold its meeting on February 17.

In the "very likely event" that the 50 per cent quorum for the French company is not met, its meeting will be adjourned until February 17 to coincide with the UK meeting.

The share issue is intended to reduce the company's debt to Bombardier's £100m, which was used to build the tunnel. The company created by Bombardier to build the tunnel, is also to receive FF770m (£80.4m) in phased cash payments.

On Friday Eurotunnel's shares closed at 568p.

All eyes on a regional success

Raymond Snoddy on Midland Independent Newspapers' flotation plan

Midland Independent Newspapers, which publishes the Birmingham Post and Mail, is likely to focus attention on the regional newspaper industry.

Although no price has yet been set, the hope is that the regional newspaper group taken over in a management buy-out in 1991 will be capitalised at more than £150m.

The announcement today of the flotation by way of a placing and public offer covering more than 50 per cent of the shares, will be accompanied by results for the year to December showing group turnover on continuing operations of £70.7m, from £65.2m previously.

The group will also report operating profit on continuing operations before exceptional expenses (mainly interest on the MBO finance) of £15.2m, compared with £13m.

The management team of six, led by Mr Charles Oakley, the chief executive, organised the buy-out from Ingersoll Newspapers, which shared equally in 7.5 per cent of the equity.

The stake could rise to 17.5 per cent, depending on performance until June 1993.

The flotation will almost certainly create six new newspaper industry millionaires, at least on paper.

The flotation, the first totally regional newspaper group to come to the stock exchange for a number of years, is likely to focus attention on the regional newspaper industry.

Although sales of regional newspapers have been in gradual decline - total sales dropped from 17.4m in 1981 to 13.8m in 1992 - well managed companies have been increasing profit margins.

Despite the recession, MIN for instance has increased operating profit margins on continuing operations from 8.9 per cent in 1991 to 21.4 per cent.

All six members of the management team at Birmingham have worked in newspapers all their lives and had often felt constrained in trying out new ideas while working for other groups.

"We knew what to do to get costs down, but we also thought we knew what to do to build revenues and sales given the right policy. We were at it from the first day (of taking over)," says Mr Oakley.

The group has also pursued a strategy of expansion into the East Midlands, so that it can offer advertising coverage of the entire region.

Last year it acquired 20 free weeklies from Thomson regional group, ranging from Derby to Northampton. The papers had been losing £2m a year.

"We made them profitable from the week we owned them," says Mr Oakley, who came from the Birmingham Post as editor in chief and soon after became managing director.

MIN's main titles mostly lost circulation last year, but the fall was below the industry average of between 3 and 4 per cent.

The Evening Mail at 205,000 was down just under 3 per cent for the year, the Birmingham Post circulation rose nearly 1 per cent to 26,000, the Sunday Mercury lost 2.5 per cent to 150,000 and the Coventry Evening Telegraph dropped just under 2 per cent to 88,000.

Apart from cutting costs, setting tough advertising targets and pushing ahead with geographical expansion throughout its region, the MIN management has developed a range of new publications from What's On titles to county magazines.

"We are looking up our market place. What we are trying to do everywhere is to have a whole range of products to give advertisers a choice," the MIN chief executive explained recently.

The choice includes being able to deliver leaflets, catalogues, and sometimes even products such as chocolate bars to every home in the region.

James Capel, broker to the issue, which is being sponsored by Morgan Grenfell, is publishing research on the regional newspaper industry this week. It forecasts substantial profits growth in the short term as the cyclical recovery in advertising, particularly classified, gets under way.

The stockbroker believes that in the longer term the sector remains attractive, despite growing competition from the electronic media, because barriers to entry are high and competition though fierce is rational.

On MIN itself James Capel says the company enjoys a dominant market position in Birmingham and Coventry and "is a good way of getting exposure to the UK regional newspaper industry."

Mr Oakley is already looking beyond the flotation and considering expansion outside the Midlands, if he can find the right acquisitions. "We believe we could go to Swindon, or Darlington or York and produce 20 per cent-plus profit margins," he says.

Coda banks on 'open' systems

By Alan Cane

Coda, the Harrogate-based software company which is coming to the main market early in February, is hoping that an early move into "open" systems will propel it to the front of the international accountancy software field.

Open software is written to a specific industry standard; it will run on any computer or computer network which complies with that standard. It is being demanded increasingly by customers.

Coda ranks 14th in a market dominated by the large US companies Dun & Bradstreet Software and Computer Associates and the fast-growing German challenger, SAP.

According to IDC, the marketing consultancy which compiled the list, no other player has more than 3 per cent of the market. Coda has 1 per cent. "We could be fourth," muses

Mr Rodney Potts, co-founder and chairman. "We should be fourth." To do so, it will have to overtake companies including JD Edwards, Walker Interactive, Ross Systems and Software 2000. Last year Coda made a pre-tax profit of £3.75m on revenues of £23.5m.

The prospectus is published today in the run up to the placing, which should provide the best part of £25m, less expenses, to invest in research and development and geographical expansion. Warburgs is managing the placement.

The UK is seeing something of a renaissance in the development of accountancy packages. Sage has established itself as market leader in personal computing packages, while Quality Software Products continues to show promise in very large scale modular packages.

Coda's product, featuring a fully-integrated unified database, is aimed at companies

turning over at least £100m.

Coda started 15 years ago by developing its software for three mid-range computer families: Hewlett Packard, Digital Equipment and International Business Machines.

In 1980, it began to develop an open systems version and now claims it is its most highly featured product.

Expenditure on research and development is about 13 per cent of turnover, which is written off in the year it is incurred.

Coda's second strategic aim is to develop critical mass in key international markets. It sells only through wholly owned subsidiaries, rather than dealers.

Mr Potts defined critical mass as a sound, locally recruited, management team, 20 staff, up to 40 customers and between £2m and £3m profits. The US accounts for 46 per cent of group sales.

Ladbroke £82m HK bonus

By Peggy Hollinger

Ladbroke, the leisure and property group, is to reap an £82m windfall this year from the early termination of a management contract for its Hilton hotel in Hong Kong.

The fund will be used to reduce the UK group's £1.3bn debt. Ladbroke has already announced its intention to withdraw from commercial property, valued in the books at £80m, to cut borrowings.

Ladbroke said yesterday that Hutchison Whampoa, the Hong Kong conglomerate which owns the hotel, had offered to pay £125m in compensation for the management contract. The proceeds will be included in an exceptional profit in the

group's results for 1994.

The Hong Kong Hilton had been one of Ladbroke's most profitable management deals, and was due to run for a further 20 years.

In the year ended December 31, the hotel contributed an operating profit of \$6m. The contract is due to expire before the end of next January, when "Hutchison Whampoa will review and evaluate the hotel's future," Ladbroke said.

Hutchison Whampoa is believed to be considering a sale of the centrally located site, given the buoyant property market in Hong Kong. An alternative use of the site would have been impossible due to the conglomerate's obligation to Ladbroke.

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Guinness (UK)	Molt Hennessy (France)	Drinks	£902m	Restructuring LVMH alliance
GP Goenta (India)	Unit of ICI (UK)	Fertiliser	£25m	ICI India refocusing
Blockbuster Entertainment (US)	Virgin Interactive Entertainment (UK)	Computer games	£20m	Building block stake
Cadbury Schweppes (UK)	Bouquet D'Or (France)	Confectionery	£18.4m	Strengthening market position
Albert Fisher (UK)	Fresh Western Marketing (US)	Food	£17m	Complementary purchase
Triton Energy (US)	Triton-Europe (UK)	Oil & gas	£12.5m	Offer for outstanding stake
Siemens (Germany)	ACT Cablestream (UK)	Computer services	£5m	ACT refocusing sale
NFC (UK)	Transports Leridon (France)	Transport	£2.7m	Cash deal
Winterthur (Switzerland)	DSV Holdings (Germany)	Insurance	n/a	Another try for German base
Sphinx (Netherlands)	Gustavsenberg (Sweden)	Sanitary equipment	n/a	Sphinx doubling size

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Application has been made to the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("the London Stock Exchange") for the 'C' Shares now proposed to be issued and for the Warrants proposed to be issued to shareholders by way of a bonus issue to be admitted to the Official List. It is anticipated that the listing of the 'C' Shares and Warrants will become effective and that dealings will commence on 22nd February, 1994. Application has been made for the 'C' Shares and the Warrants to be listed on the Amsterdam Stock Exchange.

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No offer or sale of any of the 'C' shares may be made in the United States of America or in any other jurisdiction where such offer or sale would be prohibited by law.

Copies of Listing Particulars dated 21st January, 1994 relating to the 'C' Shares and Warrants described herein may be obtained during normal business hours on any weekday (Saturdays excepted) by collection from the Companies Announcements Office of the London Stock Exchange, Stock Exchange Tower, Capel Court Entrance, off Bartholomew Lane, London EC2 2 up to and including 26th January, 1994. Copies may also be obtained during normal business hours on any weekday (Saturdays excepted) up to and including 14th February, 1994 from Indosuez Capital Limited, 122 Leadenhall Street, London EC3V 4QH (a member of The Securities and Futures Authority Limited).

The brokers to the Placing are Baring Securities Limited, Marlin Partners Limited and Banque Indosuez.

Dated 24th January, 1994

The Financial Times plans to publish a Survey on

Britain's Ethnic Businesses

on Thursday June 16

The survey will report on the important contribution made to the economy by ethnic minority businesses in the United Kingdom. It will examine how their future prospects will be affected by competition at home and from abroad, and how they are responding to the challenges of economic revival in the UK.

For more information on editorial content and details of advertising opportunities available in this survey, please contact:

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FT Surveys

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TO 25th April, 1994
INTEREST PAYABLE PER
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FT Surveys

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5 per cent. Equity Notes due 2003
(the "Notes")
issued by
YVES SAINT LAURENT S.A.
("YSL")

NOTICE IS HEREBY GIVEN that on 31st December, 1993 the merger ("fusion") of YSL and Yves Saint Laurent Parfums S.A. ("Parfums") became effective. By merger, Parfums was substituted for YSL as principal debtor under the Trust Deed (as defined below), the Notes and the interest coupons appertaining thereto (the "Coupons").

NOTICE IS ALSO HEREBY GIVEN that all the outstanding Notes will be redeemed in accordance with Condition 4(i) of the Notes on 24th February, 1994 by means of the delivery of fully paid up ordinary shares of FF 100 each in Elf Saoudi (the "Shares") at the rate of 1,124 Shares for each FF 1,000 principal amount of the Notes, subject to adjustment as provided in Condition 6 of the Notes (the "Share Payment Rule"). Accordingly, holders of the Notes (the "Noteholders") will not be entitled to interest on the Notes in respect of any period after 2nd January, 1994, except as provided in Condition 3 of the Notes. In order to obtain delivery of Shares, Notes should be surrendered at the offices of any Paying Agent specified below on or after such date together with all unremitted Coupons (failing which the Noteholder must pay an amount equal to the face value of the missing Coupons, which amount will be repaid in the manner provided in Condition 5(i) of the Notes), a duly completed and signed Share Payment Notice, which may be obtained from any Paying Agent, and any payment referred to in the following two paragraphs. The Shares to which any Noteholder becomes entitled will entitle such Noteholder to all distributions made or paid or other rights becoming exercisable on or after the relevant Share Payment Date (other than dividends paid in respect of the financial period prior to the financial period in which such Share Payment Date falls). The Share Payment Date in relation to any Note is the first business day in the Republic of France on or after the day on which such Note and the Share Payment Notice relating thereto are deposited with a Paying Agent or, if later, on which all requirements relating to the delivery of the relevant Shares shall have been fulfilled.

The Share Payment Notice should specify whether the Noteholder elects to receive a cash payment in respect of any fractional entitlement to a Share or an additional Share on payment of the amount specified in Condition 5(ii) of the Notes.

A Noteholder must pay stamp duty and stamp and registration duties (if any) arising on payment by means of delivery of Shares (other than any taxes or capital or stamp duties payable in the Republic of France by Elf Saoudi in respect of the issue of Shares).

The relevant number of Shares shall be entered into shareholders' accounts in the names specified by the relevant Noteholders following redemption of the Notes in accordance with French company law and the regulations of Société Interprofessionnelle pour la Compensation des Valeurs Mobilières (SICOVAM).

Claims against Parfums for payment on the Notes by means of the delivery of Shares shall be prescribed ten years after the date for redemption and, subject as provided above, claims against Parfums for payment of any interest shall be prescribed five years after the date for payment of such interest.

Copies of the Trust Deed dated 30th November, 1987 between YSL and The Law Debenture Trust Corporation p.l.c. constituting the Notes, as amended by three Supplemental Trust Deeds (the "Trust Deeds"), which includes the form of the Notes and Coupons, are available for inspection at the offices of the Paying Agents as follows:

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London EC2A 2HE
Other Paying Agents
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à Luxembourg S.A.
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Decline in profits slows at Banco Central Hispano

By Tom Burns in Madrid

Banco Central Hispano, Spain's largest bank in terms of assets, saw net group profits after minorities drop by 8 per cent last year to Ptas4.4bn (\$33.8m). The bank claimed it had turned round the balance sheet after sustaining a 22 per cent fall in group income in 1992.

The results, which were ahead of analyst estimates, were the most keenly awaited among those of Spain's top financial groups following the intervention by the authorities at troubled rival bank Banesto at the end of last year.

Pointing to the group's continued weakness in the basic lending business, BCF's net interest income shrank by 4.8

per cent to Ptas299bn, but its operating profit margin, including fee commissions and what the group called financial operations, rose by 11.8 per cent to Ptas465bn.

Financial operations, understood to be mainly foreign exchange and public debt dealings, earned the group Ptas1.5bn, against Ptas1.9bn in 1992.

However, this is essentially a non-recurring item because it was realised in the exceptional circumstances of sharp falls in interest rates and of a rapidly weakening peseta during last year's European currency turmoil.

Net profits at BCF, which is still absorbing the impact of the 1991 merger between Banco

Central and Banco Hispano Americano that created the group, are not expected to recover until next year.

The 1993 operating profit, however, showed a strong 26.2 per cent increase to Ptas72bn which allowed BCF to set aside Ptas10bn for non-performing loan provisions, up from a Ptas6.4bn allocation for bad debts in 1992.

Aside from provisioning, BCF's balance sheet was penalised by a 39.7 per cent fall in income to Ptas7bn from the group's industrial assets, which include some of the recession-hit domestic economy's top companies, and by a 12 per cent fall to Ptas41.6bn in extraordinary income through disposals.

Full-year deficit for Amdahl of \$580m

By Louise Kehoe in San Francisco

Amdahl, the US mainframe computer company, reported continuing losses for its fourth quarter as it struggled to adjust to weak demand and fiercely competitive pricing in the market for IBM-compatible mainframe computer systems.

Fourth-quarter losses were \$40.9m, or 36 cents per share, on revenues of \$443m. In the same period last year, the company recorded net income of \$2.4m, or 2 cents a share, and revenues of \$745m.

For the year, including third-quarter pre-tax restructuring charges of \$478m, net losses were \$580m, or \$5.09 a share, on revenues of \$1.65bn. In 1992, Amdahl incurred pre-tax workforce reduction charges of \$28m and suffered a net loss of \$7m, or 6 cents per share, on revenues of \$2.5bn.

Fujitsu of Japan, which holds a 44 per cent stake in Amdahl, has agreed to provide the US company with \$100m in low-interest loans, according to reports from Japan - which also say Fujitsu will provide Amdahl with high-speed workstations to be sold under the Amdahl brand name.

This month, Amdahl announced an agreement with Fujitsu jointly to develop a new generation of mainframe computers. The agreement will reduce research and development costs, it said.

China loosens foreign bank rules

By Tony Walker in Beijing

Foreign financial institutions are to be allowed to conduct yuan-denominated business on an "experimental basis" in China.

Mr P.K. Mathur, Chase Manhattan's senior China representative, described the move, which was welcomed by Western bankers, as a "serious step in the right direction".

Previously, foreign bank branches had effectively been shut out of the local currency market.

Friday's announcement, in a communiqué issued after a meeting in Beijing of the Sino-US Joint Economic Committee (JEC), is certain to hasten the scramble by foreign banks to gain a foothold in China.

Mr Liu Zhongli, China's

finance minister, told Mr Lloyd Bentsen, the visiting US treasury secretary, that Beijing would allow foreign banks to deal in yuan and would also open additional "major cities" to foreign financial institutions.

Foreign bankers expect the Chinese to move cautiously because of concerns that China's debt-ridden and under-capitalised state-run banks would be hard-pressed to compete with foreign institutions.

Foreign branches are likely to be restricted to accepting yuan-denominated deposits from existing customers. Lending in local currency to joint ventures would be permitted on a limited basis.

About 60 foreign branches and six joint-venture banks and finance houses have been

established in China since a gradual reform of the banking system began in the early 1980s.

The foreign bank presence has been largely restricted to coastal cities and special economic zones, including Shanghai, Guangzhou, Tianjin and Dalian, but it seems likely that branches will be permitted in major inland centres such as Wuhan and Shenyang. Beijing itself has been off-limits to foreign branches.

Chinese officials are also saying that restrictions on foreign insurance companies will be eased. At present, only one foreign company, American International Group, has been permitted to establish a presence in China.

Mr Chen Yuan, a deputy governor of the People's Bank,

China's central bank, told the Sino-US joint economic committee that an additional "one or two" foreign insurance companies would be allowed to enter the domestic market.

However, Mr Chen warned that it would "take time" for China to work out a plan to allow foreign financial organisations to conduct yuan business. He said that the time was not yet ripe to open the securities market to foreign companies since further work was needed on securities regulations.

The Chinese official said the State Council, China's cabinet, had recently approved regulations governing the management of foreign financial institutions, and these were expected soon to be made public after further revision.

BCI to step up control of French unit

Banca Commerciale Italiana will take nearly full control of its 48 per cent unit Banque Sudameris as a result of Dresdner Bank, Banque Indosuez, Paribas and Union Bank of Switzerland pulling out. Reuters reports from Paris.

Dresdner, UBS, Paribas and Cie de Saer's Banque Indosuez each have 12 per cent of Banque Sudameris.

Sudameris said the shareholders were planning to give up their participations whereas Banca Commerciale Italiana, through its wholly owned subsidiary Comit Holding International, would increase its own to take majority control.

Banca Sudameris, a French bank whose main business is in Latin America, said it would propose a capital reduction through a share buy-back, to a shareholders' meeting on February 23.

An official said the bank would buy in the four banks' stakes and cancel them, leaving BCI with 98 per cent. The price of the buy-back would be announced later. The bank's total assets were FF26.37bn (\$4.51bn) on June 30 1993 with a net worth of FF2.46bn.

The Italian government plans to privatise BCI next month.

Trizec makes further provisions of C\$287m

By Bernard Simon in Toronto

Trizec, the Calgary-based property development group which is in the throes of a debt restructuring exercise, has taken further write-downs to reflect the slump in the North American commercial real estate market.

As a result of provisions of C\$287m, Trizec suffered a 1993 loss of C\$312m (US\$238m), or C\$1.57 per share, despite a 13 per cent rise in rental income.

The loss in 1993 was C\$544m, or C\$3.38, due largely to the write-down of Trizec's investment in Bramalea, another financially stretched developer which was restructured last year.

Trizec, controlled by the Toronto branch of the Bront family, submitted a debt restructuring proposal to security holders last August.

It is expecting a response from a crucial group of senior debenture holders in the near future. In the meantime, it has suspended all principal and interest payments.

Trizec has total debt of C\$4.8bn, but about two-thirds is held by operating subsidiaries and is not included in the recapitalisation talks.

Moore Corp, the business forms maker, will eliminate

3,000 jobs worldwide as it restructures and expands into information services, writes Robert Gibbins in Montreal.

The US\$210m restructuring will result in a US\$155m after-tax charge against fourth-quarter earnings, which will result in Moore reporting a loss for 1993.

Moore, with annual sales of US\$2.5bn, has 150 plants in 37 countries and 23,000 employees. Its biggest market is the US.

The paper forms business has been hit by the electronic revolution. Plants will be closed in several countries, though the company would not be specific.

One-quarter of the restructuring will affect the European subsidiaries but the first major impact will come in the US where the order management system will be revamped to cut overheads.

Canada's Labatt Breweries has capitalised on the domestic success of its innovative ice-brewed beer by licensing the process to Coors, the third-biggest US brewer.

Coors said it will use the ice-brewing process to produce a new brand, known as Coors Arctic Ice, to be launched in nine US states in mid-February.

Zurich bank raises pay-out

By Ian Rodger in Zurich

Bank J Vontobel, the Zurich private bank, has raised its dividend for 1993, double the Sfr15.9m earned in 1992, thanks to booming profits from securities and higher commissions.

The bank, the principal subsidiary of quoted Vontobel Holding, proposes to raise its ordinary dividend by 20 per cent to Sfr18m and pay an extraordinary Sfr12m dividend as a result of the excellent performance.

Kellogg lifts fourth-quarter earnings

By Richard Tomkins in New York

Kellogg, the US maker of ready-to-eat cereals, overcame the competitive threat from unbranded rivals and increased net profits by 17 per cent to \$149.5m in its fourth quarter. Earnings per share rose by 22 per cent to 66 cents.

However, the quarter's performance outshone the full year's. Net income of \$880.7m

in 1993 was slightly below the previous year's \$882.8m (the latter figure excluding the effect of accounting changes).

But Kellogg said that if all unusual gains and losses were excluded from the figures, net income would have been 6 per cent ahead.

Mr Arnold Langbo, chairman and chief executive, said the results had been achieved amid unprecedented competitive activity, difficult recessionary

conditions in several important markets, and unfavourable currency exchange rates.

Sales volumes of ready-to-eat cereals continued to grow during the year, particularly during the fourth quarter. Mr Langbo said. But he warned that the growth pattern shown in the fourth quarter was not necessarily a good guide to long-term performance.

"Our advertising and promotion investment rose during

the fourth quarter due to extremely competitive conditions in the US and a high level of marketing activity internationally," he explained.

"We see no let-up in competitive intensity in 1994. We are committed to meeting all competitive challenges, but hope to moderate promotional spending in the US."

In the fourth quarter Kellogg authorised further share buy-backs of \$300m this year.

New future for Europe's state-run groups

Continued from Page 13

its Nuovo Pignone engineering arm for about Li1,000bn.

The focus this year is on the banking sector. On January 31, the treasury will float about half its controlling stake in Istituto Mobiliare Italiano, the big Rome-based financial services group, for up to L2,200bn.

Banca Commerciale Italiana, another IRI-controlled bank, will follow in February. IRI will dispose of its entire 57 per cent stake, valuing the transaction at about L2,500bn.

The remaining deals are less advanced. Investors should be offered a first tranche of shares in the big Ina life insurance group by the middle of this year. And 1994 should close with the sale of a first slice of shares in Enel, Italy's electric-

ity generating authority.

The timing for privatisations scheduled for 1995 is less certain. According to the treasury's forecast, the year should bring the disposal of much of the Stet telecommunications group, restructured into Telecom Italia, and the sale of a large proportion of Eni's oil and gas activities, probably under the well-known Agip banner.

The deals have been accompanied by measures to stimulate popular share ownership and increase liquidity on the relatively small Milan bourse. Not all these plans have been successful. But probably the biggest stimulus has come from outside the government's orbit. The fall in interest rates worldwide has revived interest in the equity market, pumping

billions of lira into equity funds and leading to a much greater public awareness of the potential attractions of the bourse.

PORTUGAL: The weight of state-owned companies in the Portuguese economy is due to be halved by the time the current term of Mr Anibal Cavaco Silva, the prime minister, ends in October 1995. The main aim is to reverse a wave of centralised nationalisations that turned key industries and almost all the financial sector over to state control following the 1974 revolution.

A key aim of the centre-right government is to promote the growth of private Portuguese entrepreneurial groups. It has imposed limits of around 25 per cent on foreign holdings in most privatised companies.

Portuguese privatisations include the second phase of the sale of the state oil company Petrol, Banco Sotia e Pinto Mayor and the steel company Siderurgica Nacional.

GREECE: Greece's privatisation programme has been thrown into disarray by the victory of Mr Andreas Papandreu's Socialist government in October 1993. No privatisation programme has been announced. However, the Socialists called off the proposed sale of a 35 per cent stake in OTE, the telecoms company, and have frozen agreements with foreign financial advisers.

Reports by Tony Jackson in London, John Ridding in Paris, Quentin Peel in Bonn, Haig Simoniou in Milan, Peter Wise in Lisbon and Karen Hope in Athens.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, January 21, 1994. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

	£ STG	US \$	D-MARK	YEN (x 100)		£ STG	US \$	D-MARK	YEN (x 100)		£ STG	US \$	D-MARK	YEN (x 100)
Algeria (Dinar)	2751.68	1820.59	1041.91	1827.1	Germany (D-Mark)	12.4223	8.3491	4.7302	7507.9	Poland (Pol. Zloty)	45.1472	30.1067	17.2832	27.1562
Angola (Kwanza)	164.45	110	62.8546	98.972	Ghana (Cedi)	1229.84	470.42	730.125	1571.2	Portugal (Escudo)	1.4950	0.9749	0.5723	0.8825
Argentina (Peso)	338.286	24.1387	13.7688	91.8771	Greece (Drachma)	1.00	1.00	1.00	1.00	Spain (Peseta)	166.639	10.254	100.254	161.018
Australia (Dollar)	1.54551	1.54551	1.54551	1.54551	Guatemala (Quetzal)	374.560	220.542	143.388	1.00	Switzerland (Franc)	20.4838	13.7603	2.9812	2.9812
Austria (Schilling)	13.7603	13.7603	13.7603	13.7603	Hong Kong (Dollar)	7.7556	7.7556	7.7556	1.00	Taiwan (Dollar)	20.4838	13.7603	2.9812	2.9812
Belgium (Franc)	20.3606	20.3606	20.3606	20.3606	India (Rupee)	4.7624	4.7624	4.7624	1.00	Thailand (Baht)	20.4838	13.7603	2.9812	2.9812
Brazil (Cruzado)	271.490	143.077	81.8611	138.858	Indonesia (Rupiah)	1662.50	1662.50	1662.50	1.00	Turkey (Lira)	20.4838	13.7603	2.9812	2.9812
Bulgaria (Lev)	16.8027	16.8027	16.8027	16.8027	Israel (Sheqel)	1.83667	1.83667	1.83667	1.00	Ukraine (Hryvnia)	20.4838	13.7603	2.9812	2.9812
Canada (Dollar)	1.00000	1.00000	1.00000	1.00000	Italy (Lira)	1.936	1.936	1.936	1.00	Uruguay (Peso Uruguayo)	20.4838	13.7603	2.9812	2.9812
Chile (Peso)	800.49	800.49	800.49	800.49	Japan (Yen)	1.00000	1.00000	1.00000	1.00	Venezuela (Bolívar)	20.4838	13.7603	2.9812	2.9812
China (Yuan)	8.2756	8.2756	8.2756	8.2756	Kenya (Shilling)	100.00	100.00	100.00	1.00					
Colombia (Peso)	2063.00	2063.00	2063.00	2063.00	Korea (Won)	100.00	100.00	100.00	1.00					
Costa Rica (Colón)	200.000	200.000	200.000	200.000	Laos (Kip)	100.00	100.00	100.00	1.00					
Cuba (Peso)	24.0000	24.0000	24.0000	24.0000	Lebanon (Lira)	100.00	100.00	100.00	1.00					
Czech Rep. (Czech Koruna)	20.0000	20.0000	20.0000	20.0000	Lithuania (Litas)	100.00	100.00	100.00	1.00					
Denmark (Krone)	6.55967	6.55967	6.55967	6.55967	Madagascar (Ariary)	100.00	100.00	100.00	1.00					
Egypt (Pound)	2.48376	2.48376	2.48376	2.48376	Malawi (Malawi)	100.00	100.00	100.00	1.00					
El Salvador (Colón)	22.0000	22.0000	22.0000	22.0000	Mali (CFA Franc)	100.00	100.00	100.00	1.00					
Equatorial Guinea (CFA Franc)	200.000	200.000	200.000	200.000	Mexico (Peso)	16.6717	16.6717	16.6717	1.00					
Ethiopia (Birr)	20.0000	20.0000	20.0000	20.0000	Moldova (Leu)	100.00	100.00	100.00	1.00					
Finland (Markka)	5.94573	5.94573	5.94573	5.94573	Mongolia (Tugrik)	100.00	100.00	100.00	1.00					
France (Franc)	6.55957	6.55957	6.55957	6.55957	Morocco (Dirham)	100.00	100.00	100.00	1.00					
Germany (Mark)	1.7512	1.7512	1.7512	1.7512	Mozambique (Escudo)	100.00	100.00	100.00	1.00					
Ghana (Cedi)	1229.84	470.42	730.125	730.125	Nicaragua (Cordoba)	100.00	100.00	100.00	1.00					
Greece (Drachma)	1.00	1.00	1.00	1.00	Niger (CFA Franc)	100.00	100.00	100.00	1.00					
Guatemala (Quetzal)	374.560	220.542	143.388	143.388	Nigeria (Naira)	100.00	100.00	100.00	1.00					
Hong Kong (Dollar)	7.7556	7.7556	7.7556	7.7556	Paraguay (Guarani)	100.00	100.00	100.00	1.00					
India (Rupee)	4.7624	4.7624	4.7624	4.7624	Peru (Sol)	100.00	100.00	100.00	1.00					
Indonesia (Rupiah)	1662.50	1662.50	1662.50	1662.50	Romania (Leu)	100.00	100.00	100.00	1.00					
Israel (Sheqel)	1.83667	1.83667	1.83667	1.83667	Russia (Ruble)	100.00	100.00	100.00	1.00					
Italy (Lira)	1.936	1.936	1.936	1.936	Saudi Arabia (Riyal)	100.00	100.00	100.00	1.00					
Japan (Yen)	1.00000	1.00000	1.00000	1.00000	Senegal (CFA Franc)	100.00	100.00	100.00	1.00					
Kenya (Shilling)	100.00	100.00	100.00	100.00	Sierra Leone (Leone)	100.00	100.00	100.00	1.00					
Korea (Won)	100.00	100.00	100.00	100.00	Slovakia (Czech Koruna)	100.00	100.00	100.00	1.00					
Laos (Kip)	100.00	100.00	100.00	100.00	Slovenia (Tolar)	100.00	100.00	100.00	1.00					
Lebanon (Lira)	100.00	100.00	100.00	100.00	South Africa (Rand)	100.00	100.00	100.00	1.00					
Lithuania (Litas)	100.00	100.00	100.00	100.00	Spain (Peseta)	100.00	100.00	100.00	1.00					
Madagascar (Ariary)	100.00	100.00	100.00	100.00	Spanish Peseta	100.00	100.00	100.00	1.00					
Malawi (Malawi)	100.00	100.00	100.00	100.00	Switzerland (Franc)	100.00	100.00	100.00	1.00					
Mali (CFA Franc)	100.00	100.00	100.00	100.00	Taiwan (Dollar)	100.00	100.00	100.00	1.00					
Mexico (Peso)	16.6717	16.6717	16.6717	16.6717	Tanzania (Shilling)	100.00	100.00	100.00	1.00					
Moldova (Leu)	100.00	100.00	100.00	100.00	Togo (CFA Franc)	100.00	100.00	100.00	1.00					
Mongolia (Tugrik)	100.00	100.00	100.00	100.00	Tonga (Pa'anga)	100.00	100.00	100.00	1.00					
Morocco (Dirham)	100.00	100.00	100.00	100.00	Tunisia (Dinar)	100.00	100.00	100.00	1.00					
Mozambique (Escudo)	100.00	100.00	100.00	100.00	Turkey (Lira)	100.00	100.00	100.00	1.00					
Nicaragua (Cordoba)	100.00	100.00	100.00	100.00	Turkmenistan (Manat)	100.00	100.00	100.00	1.00					
Niger (CFA Franc)	100.00	100.00	100.00	100.00	Ukraine (Hryvnia)	100.00	100.00	100.00	1.00					
Nigeria (Naira)	100.00	100.00	100.00	100.00	Uruguay (Peso Uruguayo)	100.00	100.00	100.00	1.00					
Paraguay (Guarani)	100.00	100.00	100.00	100.00	Venezuela (Bolívar)	100.00	100.00	100.00	1.00					
Peru (Sol)	100.00	100.00	100.00	100.00										
Romania (Leu)	100.00	100.00	100.00	100.00										
Russia (Ruble)	100.00	100.00	100.00	100.00										
Saudi Arabia (Riyal)	100.00	100.00	100.00	100.00										
Senegal (CFA Franc)	100.00	100.00	100.00	100.00										
Sierra Leone (Leone)	100.00	100.00	100.00	100.00										
Slovakia (Czech Koruna)	100.00	100.00	100.00	100.00										
Slovenia (Tolar)	100.00	100.00	100.00	100.00										
South Africa (Rand)	100.00	100.00	100.00	100.00										
Spain (Peseta)	100.00	100.00	100.00	100.00										
Spanish Peseta	100.00	100.00	100.00	100.00										
Switzerland (Franc)	100.00	100.00	100.00	100.00										
Taiwan (Dollar)	100.00	100.00	100.00	100.00										
Tanzania (Shilling)	100.00	100.00	100.00	100.00										
Togo (CFA Franc)	100.00	100.00	100.00	100.00										
Tonga (Pa'anga)	100.00	100.00	100.00	100.00										
Tunisia (Dinar)	100.00	100.00	100.00	100.00										
Turkey (Lira)	100.00	100.00	100.00	100.00										
Turkmenistan (Manat)	100.00	100.00	100.00	100.00										
Ukraine (Hryvnia)	100.00	100.00	100.00	100.00										
Uruguay (Peso Uruguayo)	100.00	100.00	100.00	100.00										
Venezuela (Bolívar)	100.00	100.00	100.00	100.00										

The Markets

THIS WEEK

Global Investor / Peter Martin

Cloudy picture for US economy



If the events of the past week are anything to go by, US economists will have to adjust the statistics for early 1994 not just for the effects of earthquakes, flood and freeze, but also for plagues of locusts and outbreaks of bolts.

We will know on Friday, when the advance GDP estimates are published, if the US economy was really growing at 6 per cent in the closing months of 1993, as the White House and the US Treasury have been predicting. But the geological and meteorological events of recent weeks mean that we don't really have much idea about what the numbers will be for the first quarter of 1994.

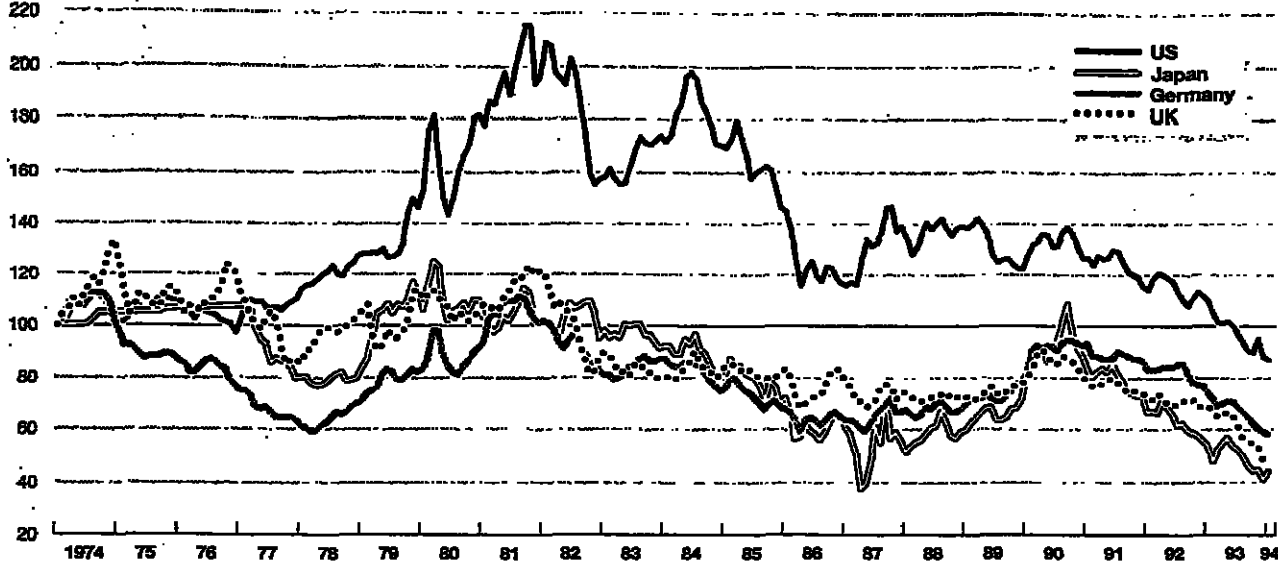
Locust-adjusted, the US economy is probably still careering along. Mark Turner, who runs Putnam Investments' global fixed income funds from Boston, offers one of those anecdotes which are always far more compelling than the dry statistics. When he started to renovate his house a few months ago, he says, his builder had a so-so order book. Now, it's completely filled for the next four years, with a mixture of residential and commercial work.

"Boston was first into the real-estate slump, and it will probably be the first out," says Mr Turner. That means you can't necessarily generalise to other parts of the country. But still, the tale is another piece of evidence about the scale of the US recovery.

In manufacturing, for example, we could well discover this spring - divine afflictions permitting - that the US has enjoyed six months of industrial output growing at an annual rate of over 10 per cent. General Electric, perhaps the most diversified of big US com-

Bond yields over two decades

Rebased 1974=100



Source: Datastream

panies, reported fourth-quarter earnings up 22 per cent over the same period last year before.

Despite all this growth, there seems no sign yet of inflationary pressures. Wait till the second half of the year, says Mr Turner's colleague Jonathan Francis, Putnam's global strategist: "That's when the chickens are going to come home to roost." GDP growth will slow, perhaps to around 2½-3 per cent. Productivity growth, which has been swamping any wage pressures, will disappear. And after the sharp rise in output of the early part of the year, capacity utilisation will be around the 85 per cent level, the point at which upward pressure on costs and prices usually starts to appear.

"If we're going to see an inflationary threat, it's going to be in the second half of the year," said Mr Turner.

Note that "if". It is what distinguishes this bond market

rally from its predecessors. At this point in any previous cycle - in recent memory, at least - there would have been no "if" about it. By now, inflationary momentum would be irresistible. This time, the bond market cannot make up its mind.

Back to 1894

One reason for this uncertainty, touched on in last week's column, is the debate over the impact of "globalisation" of markets on the developed economies. At a micro level, the shift of manufacturing to south-east Asia and (to a lesser extent) to Latin America, promises all sorts of disruptions to western financial markets - to corporate bond markets just as much as to equities.

At a macro level, though, the rapid growth of the non-OECD world could bring unalloyed benefits. That, at least, is the

conclusion reached by Sushil Wadhvani and Mustaq Shah of Goldman Sachs in a recent paper. As part of their argument, they return to the period that exercises a morbid fascination for British economic historians: the years between 1870 (when Britain produced roughly a third of world industrial output) and 1914 (when the UK share had fallen to only 14 per cent). In the same years, the US share rose from around 23 per cent to 38 per cent.

For much of the period, the general price level fell in the UK. This, say the authors, "is consistent with the notion of global competition exerting a deflationary impact", though they accept that other factors may also have been at work, including the behaviour of the money supply. Throughout those years, bond yields were on a long-run down-trend, and productivity growth lagged behind that in Germany and the US. The striking thing,

however, is that Britain's overall economic growth rate was not significantly slower, at around 2 per cent, than in much of the earlier part of the century. And in the last quarter of the 19th century, UK equities provided a real return of over 8 per cent a year, a high figure by any standards.

Of course, at the turn of the century the UK equity market remained undeveloped, with many big companies in family hands. Still, assuming that these figures are representative, they lead the Goldman economists to a number of interesting conclusions: Fast growth in the rest of the world does not rule out acceptable growth in mature economies. Global competition may indeed hold down developed-country inflation, creating an attractive long-run environment for bonds. Equities may continue to outperform fixed-income investments, though not by as much as is usual. And though

developing economies may in general provide better returns, there will be periods when OECD stock markets do better.

Plumbers

A clutch of product announcements from Hewlett-Packard last week symbolised the way in which the computer industry's old conventional wisdom is dying. The old wisdom said that mainframes, minicomputers and workstations, though undermined by personal computers, would retain important for serious applications, the ones that keep a business going. Big computer companies would have to slim down, but they could retain their existing business model (lavish sales staff, lots of hand-holding, high gross margins). That belief, already sickly, will finally succumb in 1994. Last week HP launched powerful new workstations and "business servers" which are replacements, in effect, for old-style minicomputers, themselves replacements for old-style mainframes.

HP's new machines perfectly illustrate the trend. The most significant numbers about them are not the 16Mb or 60MHz that litter the HP releases; they're the \$3,995 price for the workstation. Not only is that dangerously cheap, comparable with top-of-the-line PCs - it's also consumer-style pricing, sneaking in just under the thousand dollar mark. That's it, guys: once that shift happens, the old comfortable business-to-business certainties go out of the window. And so does the gross margin.

You knew all this? All right, but did you realise just what was happening to the new conventional wisdom, too? People who long ago wrote off the mainframe have been talking excitedly about "the coming OS wars", the looming battle between various new operating systems for desktop computers

Total return in local currency to 20/1/94

	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.06	0.05	0.12	0.13	0.16	0.10
Month	0.27	0.20	0.55	0.57	0.71	0.48
Year	3.69	3.41	7.38	9.31	12.13	6.56
Bonds 3-5 year						
Week	0.29	-0.97	-0.04	0.03	0.38	0.82
Month	1.14	-1.18	0.39	0.70	1.04	0.61
Year	9.28	9.07	12.32	17.32	27.12	13.15
Bonds 7-10 year						
Week	0.23	-2.27	-0.29	0.12	0.76	1.15
Month	1.61	-2.05	0.32	1.02	1.26	0.99
Year	13.38	11.85	15.84	23.04	38.54	21.34
Equities						
Week	0.5	3.3	-1.9	0.6	1.5	3.7
Month	2.0	6.9	-2.6	3.5	-0.1	4.7
Year	12.0	23.8	35.7	34.2	32.7	33.7

Best performing stocks from FT-A World Indices in local currency to 20/1/94

	Close	Week	% change Month	Year
Spring Ram (UK)	76.00	39.4	55.1	-36.1
Sario (Spain)	460.00	29.6	18.9	35.3
Bouganville Copper (Aus)	1.10	29.4	71.9	189.5
NL Industries (USA)	6.25	27.5	8.5	18.6
Jardine Strategic (HK)	36.20	23.7	11.5	66.3
Jardine Matheson (HK)	78.00	21.9	6.1	69.6
Hutchison Whampoa (HK)	37.75	21.8	-2.6	127.4
Taylor Woodrow (UK)	181.00	20.7	32.1	154.9
Guoco Group Ltd (HK)	41.75	19.3	0.6	165.9
Henderson Investment (HK)	8.15	18.1	9.4	128.0

Sources: Cash & Bonds - Lehman Brothers. Equities - © NatWest Securities. The FT-World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

one from Microsoft, one from Apple and IBM, one from Novell, and so on. One of these would take over from Microsoft's MS-Dos, the current industry standard. Which was it to be?

In truth, since the operating system does a computer's most boring housekeeping tasks, anyone who could get excited about OS wars would probably love a TV show called Battle of the Sanitary Engineers.

It's all beside the point, anyway. HP also announced last week that its new computers, though they have their own operating system, would also be able to run any program written for Microsoft's Windows, the visual front end to

MS-Dos. Other companies have already pulled off the same trick. Windows has, in effect, replaced MS-Dos as the world's standard, and the OS wars are irrelevant.

Conclusions: 1. Microsoft's Bill Gates has done it again. 2. Only computer companies that, like HP, have adapted to the new world can hope to survive. 3. If the prices in any industry suddenly shift from figures ending in zero to ones ending in 95 or 98, watch out for companies whose cost structure and volumes can't make the shift, too.

*Emerging Giants. Globalisation and Equities. Goldman Sachs International, London, January 19 1994

Economics Notebook / Peter Norman

Tax squeeze may force G7 to revitalise economic co-operation



The world's most exclusive club is in decline. A year ago, Mr Lloyd Bentsen, freshly installed as US Treasury Secretary, was championing at the bit to breathe new life into the Group of Seven countries, comprising the US, Japan, Germany, France, Britain, Italy and Canada.

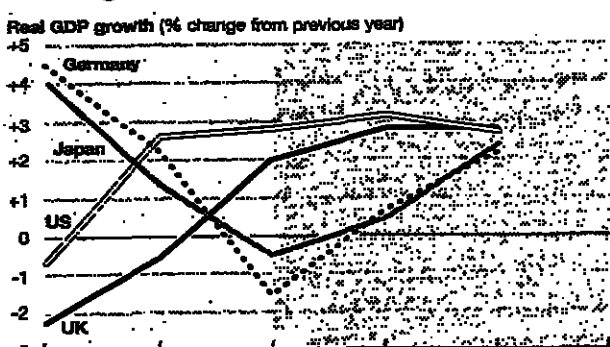
As finance minister of the world's most potent industrial democracy, he appeared to believe that more co-operation and less megaphone diplomacy among the G7 could ease, if not solve, problems as diverse as Europe's mass unemployment and faltering economic reform in Russia. This month, Mr Bentsen has been globe-trotting but mainly in east Asia. His talks in Japan yesterday were tacked onto a round-the-world trip that started in Moscow and continued in Indonesia, Thailand and China. Little has been heard of the G7 of late. After years of huffing and puffing over trade, it took a back seat in the final negotiations that secured the Uruguay Round trade agreement in December.

US President Bill Clinton's plans for a special G7 meeting to tackle unemployment, proposed last summer, have been painfully slow in reaching fruition. After many delays, a meeting of labour and finance ministers has been scheduled for mid-March, although officials are still unclear what will be discussed.

G7 leaders, including Mr John Major, the UK prime minister, have cast doubt on the value of their annual economic summit. The meeting will be held again this year - in Naples between July 8 and 10 - but is likely to be a low key event compared with past extravaganzas. The group appears to have decided that a low profile is the safest approach to the present difficulties in Russia. In the past, the G7 has tried to guide events with an economic carrot and stick.

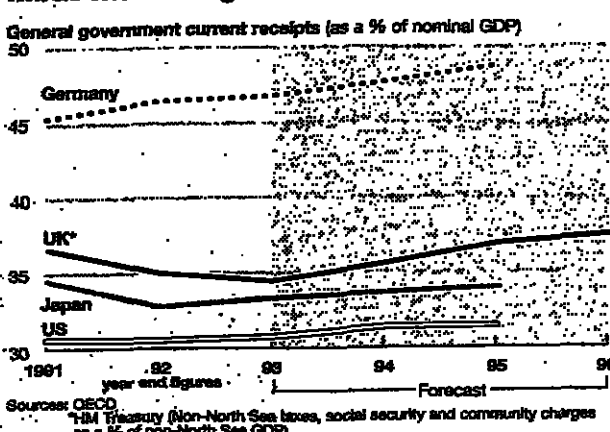
The only known response to last week's exit of economic reformers from the government in Moscow was a telephone call among senior officials on Friday which seems to

Leading economies should converge...



Source: OECD Outlook, Dec 1993

...but face rising tax burdens



Sources: OECD, "The Treasury (Non-North Sea) taxes, social security and community charges as a % of non-North Sea GDP"

have reached no clear conclusions. There is strong case for saying that such reticence is all to the good. International co-operation can create rather than solve difficulties. Arguably, some of the problems of the late 1980s - Japan's bubble economy and the UK's high inflation, for example - can be blamed in part on over-enthusiastic attempts to co-ordinate exchange rates and monetary policies among the G7.

Instead of grand international gestures, G7 nations in recent years have concentrated on solving their own domestic economic problems first. Whether by accident or design, one positive result has been a fall in inflation to levels last seen in the 1960s.

The upper chart, based on projections in the December Economic Outlook from the Organisation for Economic Co-operation and Development, suggests that big industrial countries, by pursuing the Sinatra doctrine and "doing it my way", may be returning to

effect very soon. Mr Allen Sinai, chief economist of Lehman Brothers, told a recent investors' conference in London that the higher tax rates, which are concentrated among wealthier households, are "simply too small in total and too narrowly focused to bring the economy down".

Taking the opposite view last week was Mr Lacy Hunt, the chief US economist of HSBC Holdings, which now has Midland Bank among its group members.

He estimates that the tax increases will take \$500m (£338m) a week from consumers. This may seem small in a \$6 trillion-a-year economy. But Mr Hunt contends that the average US personal income tax rate will reach a new record of 20 per cent this year and that the households most affected by the higher taxes account for 18 per cent of consumers' expenditure. The outcome, he says, will be a drop in the economic growth rate to 1.5 per cent next year.

Germany's tax plans put other nations in the shade. The Bonn government's annual economic report, to be published this week, is expected to project increases of between 4.5 and 5.5 per cent in government revenues this year as part of a multi-year programme of tax rises to pay for unification.

The OECD estimates that by 1995 western Germany will have experienced a cumulative increase in its tax to GDP ratio of 5 percentage points since unification. While Bonn believes the German economy should grow by 1 per cent to 1.5 per cent this year, economists are sceptical. Mr Gerald Holtham, Lehman Brothers' chief international economist in London, believes Germany faces "unprecedented consumer weakness" because of the government's actions.

It is highly unlikely that the combined impact of these independent fiscal squeezes has been discussed by the politicians responsible for them. It may be that world growth is sufficiently dynamic to overcome the contractionary forces involved. However, it would be reassuring to know that potential pitfalls have been considered.

The G7 would be a good place to start.

The First Comprehensive Guide to the Eurodollar Bond Market

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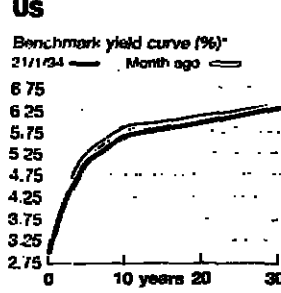
For daily and monthly returns, see Reuters page SOLU, Telerate page 2117 and on Bloomberg type SBI<GO> or SALO<GO>. Contact your Salomon Brothers representative for more information.

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NEW YORK

Richard Waters



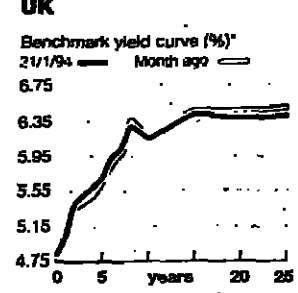
-quarter growth have been hastily revised upwards in recent days, from the 4.8 per cent level which had been the market's previous view. Now, estimates range from 5 to 6 per cent, reflecting strong consumer spending growth and an upturn in residential construction. That the fourth quarter figure would be strong has been long expected: whether the bond market has fully priced in such a rise is another thing.

Philip Coggan

UK Benchmark yield curve (%)

21/1/94 — Month ago

Years	21/1/94 (%)	Month ago (%)
0	4.75	4.75
5	5.50	5.30
10	6.30	6.10
15	6.40	6.30
20	6.40	6.30
25	6.40	6.30

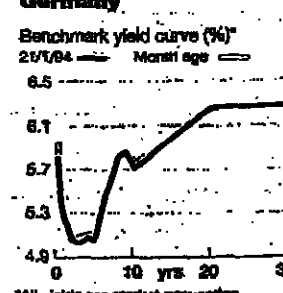


week, with only today's CBI Industrial Trends survey and Friday's non-European Union trade data. The next major event will be the Bank of England's inflation report on February 8. In the interim, gilts may well be caught in the crossfire between US Treasuries (where the next interest rate move is still expected to be up) and German government bonds (where the next interest rate move is expected to be down).

David Waller

Benchmark yield curve (3%)
2017/84

Years	Yield (%)
0	6.5
2	4.9
5	5.1
10	6.1
20	6.3
30	6.3



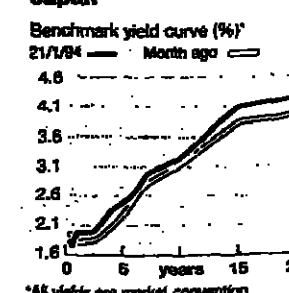
The second item of data will be the December growth in M3 broad money supply. The Bundesbank has warned that the figure will probably be high but confirmation of this will do nothing to cheer investors in the bund market.

In November, M3 grew at an annualised rate of 7.2 per cent, well above the upper limit of last year's 4.5 to 6.5 per cent target range.

Emiko Terazono

Figure 1 is a line graph titled 'Benchmark yield curve (%) 21/1/84'. The y-axis represents yield in percentage, ranging from 1.8 to 4.8 in increments of 0.5. The x-axis represents time in years, ranging from 0 to 20 in increments of 5. Two curves are plotted: a solid line for 'Month ago' and a dashed line for '21/1/84'. Both curves start at approximately 1.8% at year 0 and rise steadily. The 'Month ago' curve is consistently higher than the '21/1/84' curve. At year 20, the 'Month ago' curve is at approximately 4.5% and the '21/1/84' curve is at approximately 4.3%.

Years	Month ago (%)	21/1/84 (%)
0	1.8	1.8
5	2.5	2.4
10	3.5	3.4
15	4.2	4.1
20	4.5	4.3



official discount rate. Investors will focus on the central bank's branch managers' meeting, which runs from today until the end of the week. The scheduled press conference by Mr Yasushi Mieno, BoJ governor, is likely to provide further evidence of economic weakness throughout the country. Meanwhile, the 10-year bond auction on Wednesday might trigger concern over increased supply, thus limiting a rally.

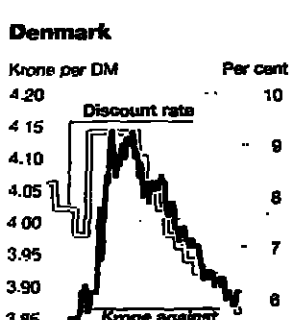
Danish rhetoric becomes reality

Denmark

Krone per DM	Per cent
4.20	10
4.15	
4.10	9
4.05	8
4.00	7
3.95	
3.90	6
3.85	

Discount rate

Krone against

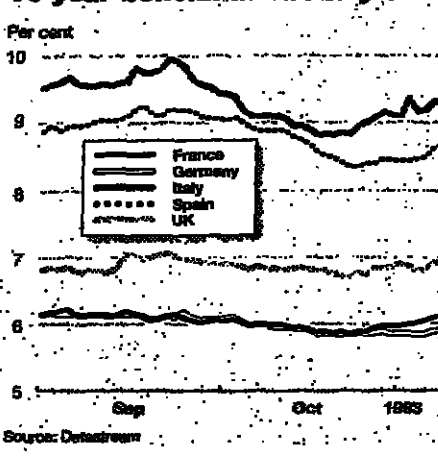


basis points to a record low of 5.89 per cent soon after Mr Hoffmeyer's comments. At the same time, the yield differential between German and Danish 10-year government bonds narrowed to less than 30 basis points from 55 basis points two weeks earlier.

However, the market appears to have cold feet now Mr Hoffmeyer's rhetoric is starting to become a reality. After last week's widely-expected quarter-point cut in Denmark's dis-

Erik Hoffmeyer: having some fun in his final year

10 year benchmark bond yields



	USA
Discount	2.90
Overnight	2.51
Three month	3.85
One year	3.48
Five year	5.05
Ten year	5.89

	Open	Sett price	Change
Mar	118-15	118-07	-0-08
July	115-12	115-04	-0-08
Sep	114-14	114-04	-0-08

1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 2679, 26

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International / Tracy Corrigan

Euromarket spin-offs aid charities

However, the investor does receive a bond certificate, and participating institutions will be featured on "tombstone" advertisements in the financial press. The money is channelled through The Charities Aid

oundation and distributed to three charities, the Depaul trust, which helps homeless young people, the Samaritans, which offers comfort and support to people in need, and a helpline which advises couples and families in times of trouble.

"In the syndicate world, there is a very tight community, and all day long we sit and price deals," says Mr Michael Dee, head of Morgan Stanley's syndicate desk. "We are about to put a positive spin on it."

launches a \$300m issue, it contributes 0.001 per cent of the value of that issue - in this case, \$3,000 - to the charity.

Mr Denys Firth, director of debt capital markets at S.G. Warburg, and his wife Victoria, who is on the London fund-

The market timing, always a prime concern for syndicate officials, could not have been better. "I doubt if there is any other time in the market when we could have achieved this," said Mr Firth.

Mr Firth's market instincts did not let him down: the flow of new Eurobond issues, always heavy at the start of a new year, has already reached \$500m so far this month, and could set a new record.

NEW INTERNATIONAL BOND ISSUES

[illegible]

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or Telephone: + 44 (0) 71-411-4114

LEGAL NOTICES

W & A P. R. BROS LIMITED
NOTICE IS HEREBY GIVEN pursuant to Section 127 of the Companies Act 1966 that the Meeting of the Creditors of the above named Company will be held at All Saints Chambers, Eign Gate, Hereford, Hereford, on 27 January 1982 at 12 noon for the purpose of considering in Sections 99 to 101 of the said Act. Creditors wishing to vote at the Meeting must hold their proofs of debt duly admitted or otherwise as recorded in the registered office, All Saints Chambers, Eign Gate, Hereford, HRA ONE not later than 12 noon on 26 January 1982. For the purposes of the above meeting, the date of account to be presented has (securely) to lodge at All Saints Chambers, Eign Gate, Hereford, HRA ONE before the meeting, a summary containing particulars of this security, the date to be taken into account and the value at which it is assessed. Notice is further given that EDWIN P. HUNT, Director of W & A P. R. Bros Limited, is a PRACTITIONER, OF ALL SAINTS CHAMBERS, EIGN GATE, HEREFORD, HRA ONE, and that he is authorised to supply creditors with such information as they may lawfully require during the period ending on the day on which the meeting is to be held.
Dated 17 January 1982
W & A P. R. Bros, Director

ART GALLERIES

WORLD OF DRAWINGS AND WATERCOLOURS Park Lane Hotel, Piccadilly, W1. 28-30 January. 11am-8pm (7pm last two days). 071 499 6321

EQUITY MARKETS: This Week

NEW YORK

Frank McGurty

Earnings to remain the focus

The "nirvana scenario" embraced by Wall Street last week may quickly fall out of fashion if the impressive new year rally comes to an abrupt halt this week or next, as some analysts expect.

Be that as it may, simple faith in the staying power of the current fundamentals - strong growth, low inflation and stable interest rates - resulted in a nearly perfect string of sessions last week. Indeed, for a few days at least, it has seemed like the best of all worlds for stocks.

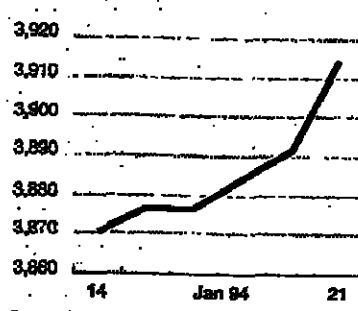
The Dow Jones Industrial Average powered past the 3,900 mark for the first time on Friday, just two weeks after topping 3,800. The bellwether blue-chip index finished at 3,914.48, for a weekly advance of 47 points and its weekly record close in five days. (On Tuesday, the Dow was unchanged, matching the peak achieved the previous session.)

With the US results season in full swing, earnings - rather than fresh economic news and trends in the US Treasury bond markets - will remain the focus, as investors look to see how individual companies performed.

Some leading pharmaceutical concerns, including Merck and Warner-Lambert, will post their results today. The market, which has already reacted badly to a slowdown at Pfizer, is anxious to see if price discounting has affected the profitability of the rest of the underperforming sector.

The failure of the market last week to respond with enthusiasm to earnings that matched or exceeded analysts' forecasts was a warning flag for Mr James Solloway, head of equity research at Argus Research in New York. There were some exceptions, notably Caterpillar and

Dow Jones Industrial Average



Source: FT Graphica

Apple Computer. But the market, by and large, seems to have factored strong earnings into many share prices.

Mr Solloway believes this is a just one indication of "the wear and tear that develops near the end of a market rally", when stock values have begun to run ahead of the fundamentals. While he believes the longer-term outlook for equities remains bullish, he anticipates "a couple of weeks of consolidation" in the near term.

Mr Gregory Nle, technical analyst at Kemper Securities in Chicago, agrees that the market is ripe for a setback, but believes it will put in a good performance over the next few days. However, he warns that stocks are approaching an "overbought" position and expects the market to retrace its December and January gains with a correction of about 10 per cent soon.

Just what will trigger the downward move is anyone's guess. Potential catalysts include a further deterioration of the Russian reform process and another uptick in industrial commodity prices.

Mr Joseph McAllinden, of Dillon Read in New York, points out that the preliminary estimate of fourth-quarter gross domestic product, to be released on Friday, may scare investors if it exceeds 5 per cent. Such a level may bring forward a move by the Federal Reserve to tighten monetary policy.

LONDON

Terry Byland

Search for value to continue

A stock market constantly searching for new peaks presents investors with a heady environment, especially when it insists that all news must be good news. The UK market is still riding strongly on the basic rate cut prospects and the reality must be that the cut is not going to be delivered until the chancellor of the exchequer wills it; he did not sound too willing on BBC radio last week, so hopes must be projected forward yet again.

This week will leave the stock market relatively light on UK economic data compared with last week. There are also fewer trading statements from the big corporate names, except in the retail sector. This could be the reason because it leaves investors to continue the search for value in a market where the word "overbought" is becoming audible.

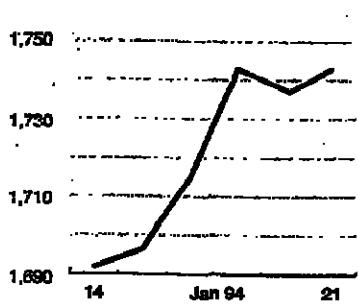
Plummeting yields on equities as prices race ahead have already brought the dividend yield on the FT-SE All-Share Index down to levels seen only rarely over the past 20 years. With bond yields also declining fast, investors have been driven to seek out "value" in the higher yield areas in equities, including, most notably, the FT-SE Mid 250 stocks.

This index, having outperformed the FT-SE 100 Share Index by almost 8 per cent since January 1993, went into overdrive in the middle of last week, outpacing and even leading the FT-SE 100 Share Index.

But any market index which can rise by 136 points in one day, and fall by 43 the day after, as the Mid 250 did in the middle of last week, is a hazard for the unwary.

Fund managers are very cautious towards the non-Footsie stocks,

FT-SE-A All-Share Index



Source: FT Graphica

remembering how many relatively illiquid shares proved unsaleable for a long time after the market crash of 1987.

Higher than average yields can highlight dividend risk as well as underlying value, warns Mr Ian Harnett at Strauss Turnbull.

Technical market specialists warn that market makers have been effectively short of stock since the FT-SE index stood at 3,850, just ahead of the November budget.

Allowing for several catch-up opportunities since then, the genuine "average shorting level" is believed to be around 3,265 which leaves a lot of room for market makers to welcome and encourage any correction in share prices. Technical pressures of this nature can push prices downwards as well as upwards if the market changes direction.

Derivative Securities, the UK-based specialist on equity market technical factors, believes that, while a correction is still likely, only a few stocks are in serious danger.

It identifies Ladbroke, the leisure and hotels group, as displaying clear signs of being overbought following the response of the share prices to the boardroom developments.

It rates as marginally overbought stocks ranging from British Airways, where the shares are looking for higher traffic levels as global economies improve, to Tesco, which last week commented on the trading outlook.

OTHER MARKETS

TOKYO

The unexpected defeat of Prime Minister Morihiro's political reform bill in the upper house last Friday was bad news for the stock market. The coalition government will have to negotiate with the Liberal Democrats, the leading opposition party, over a compromise. Share prices could plunge on profit-taking if further political turmoil delays the announcement of the economic stimulus package.

PARIS

Bouygues, the construction group, announces 1993 results tomorrow. The company, which reported a 37 per cent reduction in first-half net profits, has warned that full-year figures will be down on last year's FF685m (\$117.28m). Skis Rossignol holds an analysts' meeting on Thursday and BSN unveils 1993 sales figures on Friday.

WARSAW

Bank Slaski, the market's largest ever share listing, makes its trading debut tomorrow. The bank, one of the nine being sold under the government's privatisation programme, saw a massive oversubscription last month, with more than 800,000 domestic and foreign applicants offering 1,983.2bn zlotys (\$372m) for 1,236.5bn zlotys worth of shares. Analysts expect the 500,000 zloty offer price to be more than treble when trading begins.

DUBLIN

Investors are hoping for a mildly positive package from Wednesday's budget. Davy Stockbrokers in Dublin, which this month told analysts in London and Edinburgh it expected domestic investors to replace foreigners as the driving force in the market this year, believe the government may re-jig investment tax treatment in favour of equity investors.

STOCKHOLM

SSAB, the steel company, is expected to announce 1993 net profits of around SKR600m (\$74m) tomorrow. Firmer prices and lower processing costs have helped the recovery after 1992's SKR165 pre-tax loss.

ZURICH

Baer Holding is expected to unveil 1993 profit figures today. Tomorrow, the Swiss Insurance Industry Association holds a news conference. Swiss Re has analysts' presentations in Zurich tomorrow and in London on Wednesday.

RISK AND REWARD

FRN investors offered a home on the range



You have seen collared floating-rate notes, fixed-floater-reverse and perpetual floaters. Now meet the latest structured product

to emerge from the laboratories of the Eurobond rocket scientists: the range-floater.

In recent weeks this instrument has become all the rage, and hardly a day passes without a handful of such deals hitting the Eurobond market.

The past two weeks have seen the issuance of more than \$1bn of range-floaters, also called corridor floaters, and syndicate officials say there's more to come. US dollar range-floaters essentially hinge on investors' outlook for US interest rates.

In order to make money, they have to hold the view that US short-term rates will stay in a narrow band during the life of the note and that interest-rate volatility will remain low.

The salient feature of range floaters is that, when the dollar London inter-bank offered rate lies within a specific range, investors earn a much higher coupon than they would otherwise receive on a plain-vanilla floater from the same borrower. However, no interest accrues on the days when Libor lies outside that range.

As an example, the European Bank for Reconstruction and Development (EBRD) last week issued \$200m of one-year range notes. They pay a coupon of three-month Libor plus 50 basis points when the three-month Libor daily fixing falls between zero and 4 per cent in the first six months of the note's life and between zero and 4.25 per cent during the second six months. No interest accrues when Libor rises above 4 per cent during the first half or above 4.25 per cent during the second half. US three-month Libor was fixed at 3.25 per cent on Friday.

As a triple-A rated supranational borrower, the EBRD would pay well below Libor on a plain-vanilla FRN. According

to the EBRD's treasurer, Mr René Karsenti, the deal beat its one-year funding target of around Libor minus 1.5 points.

Range floaters pay investors an above-market rate to compensate them for the risk that interest may not accrue during some of its life.

"We are now in an environment where yields are so low that the only way to get a yield pick-up is to take a market view," says Mr Tim Skeet, senior vice president on the syndication desk at Kidder, Peabody.

Many range-floaters have been issued by triple-A rated borrowers, making credit risk a negligible consideration. Typical buyers of range-floaters include money-market fund managers and commercial banks.

Even if Libor does fall outside the range during some of its life, it will take a while before investors lose out. In the case of the EBRD note, investors will earn the full Libor-plus-50 coupon if Libor lies within its range on each day in the quarter; but even if Libor is within the range for only 78 days, the investor will still earn around Libor flat - more than could be obtained from a plain vanilla EBRD floater. "Libor can fall outside the corridor for a period of time and you can still have a good investment," says one dealer.

From the borrower's perspective, range floaters enable top-notch issuers to get deep sub-Libor funding by swapping the proceeds into plain-vanilla Libor-based funds.

The value comes from the swap counterparty who agrees to pay the issuer the difference between its sub-Libor funding target and the coupon on the days when Libor is within the range," explains a swaps trader. This leaves the issuer fully hedged while the swap counterparty assumes the risk that Libor stays within the range. The swap counterparty in turn can hedge itself with the use of options strategies.

Conner Middelmann

INDICES AT A GLANCE

	Closing price	Percentage Change	Over week	On 12 months	Since Jan 1	High	12 month Low	High	1994 Low
FT-SE 100	3,484.21	+2.5	+1.9	+25.6	3,484.21	21/1/94	2,771.90	25/1/93	3,484.21
Dow Jones Ind.	3,914.48	+1.2	+4.3	+20.3	3,914.48	21/1/94	3,253.02	21/1/93	3,914.48
Nikkei	19,307.43	+1.8	+10.8	+18.7	21,148.11	13/9/93	16,078.71	29/11/93	19,307.43
Dax	2,075.61	-3.1	-8.4	+31.9	2,267.98	3/1/94	1,562.32	27/1/93	2,267.98
CAC 40	2,248.69	-0.6	-0.9	+13.7	2,331.33	1/1/94	1,772.21	29/1/93	2,331.33
France Com. Ind.	613.61	+1.8	-0.9	+25.8	632.66	30/8/93	472.09	25/1/93	624.51
								3/1/94	588.85
									10/1/94

FT Graphica

EMERGING MARKETS: This Week

The Emerging Investor / Stephen Fidler

A warning signal from Venezuela

The collapse of Venezuela's second-largest commercial bank could raise warning signals about the quality of Latin America's banks.

Many are raising funds in the international markets and still more are paying high interest rates to secure foreign currency deposits; but there are signs that investors are not adequately differentiating among different institutions.

"There are a lot of second or third-tier Latin American banks having their paper placed all over the world. The extent to which this risk is any good, one doesn't know," says Mr Paul Luke of Morgan Grenfell Debt Arbitrage and Trading in London. "It's unclear whether the market is adequately differentiating between the different forms of risk."

Mr Charles Prescott of the London-based bank credit analysis concern IBCA says 55 banks from Brazil alone have issued debt in the international market without a credit rating.

Much of this debt has been placed directly into the hands of flight-capital accounts held by individual Latin Americans, who are comfortable with the risk they are taking. However, foreign investors without specialised local knowledge are likely to demand more information than they are getting at present.

Latin America's banking systems are a varied lot. Most

are in a state of flux, stemming in large part from the economic reforms which have changed the nature of banking in much of the region. Institutions which once survived by channeling money to the government and living off the wages of inflation, have had to find private sector customers and have sometimes proved inept at finding good risks.

As these upheavals take place, the practices which were common in Latin banks in the past have not entirely died out. As in Venezuela, accounts are sometimes not consolidated, allowing banks to shuffle assets from one subsidiary to another to provide an optical illusion of a healthy bank. The practice of making loans to executives or leading shareholders still goes on.

Unhappily for the authorities, Venezuela's problems came in the very month that new banking legislation, which

would have dealt with some of these practices as well as bolstering the capital of the banks, took effect.

In a bid to calm disquiet over the rest of the banking system, Venezuela's government moved on Friday to relax monetary conditions in the banking system in a bid to ease disquiet about other institutions. Mr Prescott points out that the

likelihood that a country's authorities will stand behind a bank, while it may not provide much comfort to shareholders, is an important element in analysing its credit risk.

The problems being faced by Venezuela now parallel in some respects the difficulties faced by the Chilean and the Colombian banking systems during the 1980s, when the government was forced to intervene to save some banks.

These banks are now emerging from these problems; legis-

lation now before the Chilean congress should resolve the remaining issue of subordinated debt still owed to the government by banks in Chile.

In Colombia, the Banco de Colombia is also emerging from under the state umbrella: it is undertaking an international placement of \$200m (£149m) in notes to be exchangeable into the bank's shares. Morgan Grenfell and its Deutsche Bank parent are handling the issue - which will account for around a third of the bank's capital.

In Mexico, the rapid privatisation of 18 banks and the expansion in the economy led to a breakdown pace of loan growth. Now the economy has slowed down, the loan quality of the banks deteriorated through much of 1993. Trying to compensate for this, banks have kept high the interest rates they have charged to customers, intensifying and possibly lengthening the recession.

Elsewhere, worse may be yet to come. A report by two World Bank economists in November suggested that

major Brazilian banks are making hay out of inflation (now touching 40 per cent a month) and that subduing inflation "would threaten the solvency of some banks".

Most bank analysts agree that a difficult period can be expected for Brazilian banks once inflation is under control, before the banking system

eventually emerges healthier. This parallels the Argentine experience in reducing inflation radically over the past three years.

The New York-based Thomson BankWatch says Argentina's "regulatory environment will continue to improve, with stricter capital requirements and closer monitoring of the

banks by the central bank." Profitability, it adds, "will remain above international norms".

Nonetheless, in Argentina and elsewhere, it is hard for bank regulators to keep up with the pace of change in the banking market. If it's hard for the regulators, investors should tread warily.

The KSE-100 index has risen by approximately 1,000 points, or roughly 70 per cent, since the October elections won by Ms Benazir Bhutto.

Hong Kong's stock exchange might extend trading hours to accommodate the increased investor interest, Mr Paul Chow, the stock exchange's

chief executive, said in London last week. This would also mean that trade could overlap with the London Stock Exchange's Sdaq International trading system.

Professor Liu Hongru, chairman of China's Securities Regulatory Commission, said at the same presentation that he was studying the possibility of establishing a stock exchange in the north of China. This should introduce more competition between the country's two other exchanges in Shanghai and Shenzhen.

Lebanon's stockbrokers have called for the reopening of the country's stock market, closed since 1984. This move came as a secondary market was due to be established to start trading next month in shares of Solidere, a company that has been formed to rebuild central Beirut.

Central bank officials have said that the new market is a temporary measure and that the Beirut bourse will eventually be reactivated.

Further coverage of emerging markets appears daily on the World Stock Markets page.

A bond issue with a twist

As new issues of Latin American bonds continued thick and fast last week, the Brazilian state of Minas Gerais launched on Friday a Euro-bond issue with a twist.

The issue - which Banque Indosuez, its arranger, says is the first sovereign bond issue from Brazil since 1980 - carries warrants entitling holders to buy preferred shares in the state-owned electricity company, Cemig.

The issuer is doubtless hoping to benefit from the current Brazilian "rosy scenario" which - for all the doubts about it coming to pass - has apparently been driving the Brazilian stock market's remarkable rally this month.

Under this, finance minister Fernando Henrique Cardoso succeeds in pushing through an economic package which brings down inflation. This so adds to his prestige that he wins this year's presidential election. He also manages to

close Brazil's debt deal with foreign banks by the deadline of April 15, thereby improving Cemig's own debt profile.

Minas Gerais is issuing \$300m of bonds, \$100m with a five-year maturity and \$100m with a six-year maturity. The five-year bonds carry a 7 per cent coupon and the six-year an 8 1/2 per cent coupon. The conversion premium on the three-year warrants is 30 per cent over the weighted average price of the preferred over the last month on the Sao Paulo stock exchange.

The preferred shares are the eighth most liquid in Sao Paulo, and the warrant offer represents about 5 per cent of outstanding shares. Cemig generates about 8 per cent of Brazil's electricity.

Bombrial, a household cleaning products manufacturer, placed \$150m of paper in August, in Brazil's first international equity warrants issue.

Profitability, it adds, "will remain above international norms".

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News round-up

Pakistan

Pakistani share prices were hit hard by yesterday's "black Sunday" as the Karachi Stock Exchange index, the KSE-100, fell by 129 points or almost 5 per cent of its value - the largest drop in a single day in recent history.

The heavy selling of shares, which came after a three month boom, was led by the financial sector and some textile shares, stockbrokers said last night.

However, many brokers and market analysts were confident that the fall was a temporary correction rather than indicative of a heavy selling trend.

"This was the reaction that everybody was waiting for," said Mr Yasin Lakhani, president of the Karachi Stock Exchange.

The KSE-100 index has risen by approximately 1,000 points, or roughly 70 per cent, since the October elections won by Ms Benazir Bhutto.

Hong Kong's stock exchange might extend trading hours to accommodate the increased investor interest, Mr Paul Chow, the stock exchange's

chief executive, said in London last week. This would also mean that trade could overlap with the London Stock Exchange's Sdaq International trading system.

Professor Liu Hongru, chairman of China's Securities Regulatory Commission, said at the same presentation that he was studying the possibility of establishing a stock exchange in the north of China. This should introduce more competition between the country's two other exchanges in Shanghai and Shenzhen.

Lebanon's stockbrokers have called for the reopening of the country's stock market, closed since 1984. This move came as a secondary market was due to be established to start trading next month in shares of Solidere, a company that has been formed to rebuild central Beirut.

Central bank officials have said that the new market is a temporary measure and that the Beirut bourse will eventually be reactivated.

Further coverage of emerging markets appears daily on the World Stock Markets page.

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CURRENCY MARKETS

Philip Gawth

The Yen falls under the spotlight

The Yen appears likely to be a focus of attention this week with the weak economy, political uncertainty, and an ongoing trade dispute with the US all impacting on the currency.

The market will be trying to assess the impact of the government's failure last week to pass a political reform package. If this prevents the introduction of a fiscal package aimed at stimulating the economy, this may cause the Yen to weaken.

The outcome of yesterday's meeting between Mr Lloyd

Bondsen, the US Treasury secretary, and Mr Morihiro Hosokawa, the Japanese prime minister, will also be closely watched.

If progress is not made in curbing Japan's trade surplus with the US, the Japanese unit will probably strengthen as an alternative means of closing the gap.

The market will also be keeping a close eye on the release of fourth quarter US GDP and durable goods figures. If these are as strong as predicted, this should lead further strength to the US currency.

In Europe, a focus of attention will be Thursday's meeting of the Bank of France monetary policy committee.

Mr Avinash Persaud, head of currency research at JP Morgan (Europe), argues that good inflation figures and some worrying trade news, allied to D-Mark weakness, give the Bank the opportunity to cut rates.

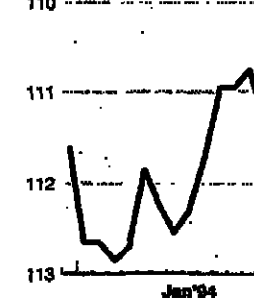
Were it to do so, following last week's Danish rate cuts, this would represent an important decoupling of monetary policy by core ERM currencies from the Bundesbank.

The outlook for sterling remains mixed as traders review the strength of the UK economy. The market is likely to turn its attention today towards investment in the CBI quarterly trends survey.

Mr Chris Turner, currency strategist at BZW, argues that these should be quite buoyant given the healthy state of returns on investment and tight capacity constraints in the manufacturing sector. If they are not, this would be an important signal to the government about the health of the economy.

Yen

Against the dollar (Yen per \$)



Source: FT Graphica

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MONEY MARKET FUNDS

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 21	Closing mid-point	Change on close	Bid/offer spread	Day's mid low	One month %PA	Three months %PA	One year %PA	Moyn's index			
Europe											
Austria	(Sch) 12.78/80	+0.074 735	785	12.26/80 12.19/25	12.36/82	-7.6	12 34/27	-1.2	102.36		
Belgium	(Bfr) 38.22/20	+0.057 414	200	36.30/21 36.17/00	36.49/81	-4.1	36.72/40	37.28	102.35		
Denmark	(DKK) 6.78/75	+0.029 850	900	6.80/80 6.74/65	6.89/80	-2.8	6.83/22	-2.6	93.03		
France	(Ffr) 5.67/34	+0.003 684	784	5.68/80 5.62/75	5.85/36	-3.2	5.89/31	-1.4	57.309		
Finland	(Fmk) 5.80/31	+0.017 316	347	5.84/90 5.90/24	5.93/24	-3.7	5.97/31	-3.1	0.0441		
Germany	(DM) 20.50/50	+1.185 360	377	17.48/80 17.57/25	1.792	-3.1	1.79/33	-2.7	17.665		
Greece	(G) 230.50	+1.185 360	377	20.41/10 20.41/10	20.41	-1.0	20.50	17.0	104.00		
Ireland	(Ir£) 14.30/3	+0.005 263	323	14.41/15 14.35/10	14.59/26	-3.2	14.50/24	-2.8	14.033		
Italy	(L) 1700 60	+6 200	300	1700.50 1685.55	17.014	-5.6	17.22/22	-4.6	1763.95		
Luxembourg	(Lfr) 36.30/30	+0.198 410	790	36.30/30 36.17/00	36.48/81	-4.1	36.72/40	37.28	-2.5	76.36	
Netherlands	(Gld) 16.00/00	+0.003 160	300	16.00/00 16.00/00	16.00/00	-2.4	16.00/00	-2.4	19.779		
Norway	(Nkr) 75.19/0	+0.003 150	170	75.20/20 74.69/40	7.523	-3.2	7.55/37	-2.0	7.610		
Portugal	(Esc) 176.29/6	+0.895 220	370	177.23/20 175.50/00	177.49/6	-8.2	179.95/6	-7.4	165.15		
Spain	(Pta) 143.07/6	+0.675 050	100	143.20/20 142.00/00	143.891	-6.5	143.05/5	-5.5	149.138		
Sweden	(Skr) 8.05/56	+0.028 665	708	8.08/80 8.00/28	8.09/80	-8.0	8.14/48	-3.9	8.2976		
Switzerland	(Sfr) 1.45/50	+0.003 165	300	1.46/20 1.45/10	1.45/21	-1.1	1.46/88	-1.4	1.4650		
UK	(£) 1.49/50	+0.004 947	952	1.50/30 1.49/40	1.49/21	2.3	1.48/89	2.2	1.4733		
USA	-	-1.111/4	-	-	1.107/15	1.09/85	1.7	1.1028	3.1	1.0691	
SDR†	-	1.375/19	-	-	-	-	-	-	-	-	
Asia											
Argentina	(Peso) 1.00/01	+0.0001 000	100	1.00/02 0.9999	-	-	-	-	-	-	
Brazil	(Cr) 413.65/9	+0.017 980	630	413.72/30 413.67/0	1.3139	-0.7	1.3138	-0.5	1.3186	-0.2	83.93
Canada	(C\$) 1.31/21	+0.0022 118	124	1.31/40 1.31/10	1.3139	-0.7	1.3118	-0.7	1.3126	-0.6	100.33
USA (New York)	(S) 3.10/80	-	0/50	0/10	3.10/75	3.10/77	3.11/18	-0.7	-	-	-
Pacific/Middle East/Africa											
Australia	(A\$) 1.42/30	+0.0041 325	325	1.42/25 1.41/25	1.42/4	-0.9	1.42/22	-1.2	1.43/47	-0.8	86.4
China Hong Kong	(Hk\$) 1.00/01	-0.0003 225	225	7.74/25 7.73/20	7.73/43	-0.2	7.73/68	-0.2	7.73/74	-0.2	-
Japan	(¥) 37.39/88	+0.0014 625	725	37.40/75 37.34/70	37.49/82	-3.1	37.43/75	-3.5	37.49/82	-3.5	-
Malaysia	(M) 111.21/0	-0.3 170	250	111.50/00 109.77/0	111.25	0.9	110.90/95	1.1	109.238	1.8	-
Nepal	(N\$) 2.74/30	+0.013 420	440	2.74/30 2.72/20	2.74/23	0.7	2.73/88	0.7	2.75/8	0.5	-
New Zealand	(NZ\$) 1.00/01	+0.0034 000	100	1.00/02 0.9999	1.00/02	-	1.00/02	-	1.00/02	-	-
Philippines	(Pso) 27.80/00	500	500	27.95/00 27.65/00	27.86/4	-0.9	27.77/07	-1.2	27.7809	-0.9	-
Saudi Arabia	(Sfr) 3.74/95	+0.0000 490	500	3.7515 3.74/30	3.75/34	-1.4	3.77/87	-1.8	3.7762	-0.7	-
Singapore	(S\$) 1.04/2	+0.0053 037	047	1.66/90 1.59/80	1.60/20	1.0	1.60/06	0.9	1.61/40	-0.6	-
South Africa (Rand)	(R) 4.00/00	+0.003 100	100	2.41/50 2.40/50	2.41/50	-3.1	2.41/50	-3.5	3.99/2	-4.1	-
US (Africa (Cents))	(R) 4.40/50	+0.0045 000	100	4.44/80 4.39/80	4.43/2	-7.4	4.48/5	-7.3	-	-	-
South Korea	(Won) 800 55/0	-0 500	600	810.40/0 809.45/0	812.55	-4.4	810.05	-3.2	834.55	-3.1	-
Thailand	(Baht) 25.00/00	+0.003 250	250	25.00/00 25.00/00	25.00/00	-2.7	25.00/00	-2.7	-	-	-
Thailand (Bt)	(Bt) 25.00/00	+0.003 250	250	25.00/00 25.00/00	25.00/00	-2.7	25.00/00	-2.7	-	-	-

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FIXED INTEREST RATES

MONEY RATES													
					January 21	Over night	One month	Three months	Six months	One year	Lamb. rate	Ds rate	Repo rate
	£	\$	Y	₹									
340	3.607	2.750	305.9	2.474									
341	3.667	1.473	163.8	1.325									
342	2.251	1.281	138.6	1.161	Belgium	7 1/2	7 1/2	7 1/2	7 1/2	6 1/2	7.40	52 1/2	-
343	2.711	1.511	158.6	1.351	France	6 1/2	6 1/2	6 1/2	6 1/2	5 1/2	6.20	-	7.75
344	1.877	1.431	159.1	1.287	Germany	6 1/2	6 1/2	6 1/2	6 1/2	6 1/2	6.20	-	7.75
345	2.077	0.959	65.3	0.953	Germany	6 1/2	6 1/2	6 1/2	6 1/2	6 1/2	6.20	-	7.75
346	1.070	0.511	58.85	0.480	Germany	6 1/2	6 1/2	6 1/2	6 1/2	6 1/2	6.20	-	7.75
347	1.745	1.303	148.0	1.197	Ireland	8 1/2	8 1/2	8 1/2	8 1/2	8 1/2	8.20	-	8.75
348	0.444	0.567	83.09	0.510	Spain	6 1/2	6 1/2	6 1/2	6 1/2	6 1/2	6.20	-	7.75
349	1.626	1.240	137.9	1.115	Sweden	9 1/2	9 1/2	9 1/2	9 1/2	9 1/2	9.20	-	9.75
350	0.895	0.828	75.90	0.914	Netherlands	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5.20	-	5.75
351	1.991	1.495	169.1	1.495	Netherlands	5 1/2	5 1/2	5 1/2	5 1/2	5 1/2	5.20	-	5.75
352	1	0.762	84.80	0.686	Switzerland	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.20	-	4.75
353	1.312	1	111.2	0.900	Switzerland	4 1/2	4 1/2	4 1/2	4 1/2	4 1/2	4.20	-	4.75
354	11.79	8.990	100.00	8.098	US	2 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3.00	-	3.00
355	4.456	1.112	123.6	1	US	2 1/2	3 1/2	3 1/2	3 1/2	3 1/2	3.00	-	3.00
356					Japan	2 1/2	2 1/2	2 1/2	2 1/2	2 1/2	2.15	-	2.15

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RY BILL TENDER		Jan 21		Jan 14	
		Sterling		54. - 5% 57.50 53.50 55.50 54.50 55.50 54.50	
		Swiss Franc		44.4 - 4 44.4 - 4 44.4 - 4 44.4 - 4 44.4 - 4 44.4 - 4	
		U.S. Dollar		34.5 - 3 34.5 - 3 34.5 - 3 34.5 - 3 34.5 - 3 34.5 - 3	
		U.S. Dollar		21.8 - 2 21.8 - 2 21.8 - 2 21.8 - 2 21.8 - 2 21.8 - 2	
		Italian Lira		10.8 - 8 10.8 - 8 10.8 - 8 10.8 - 8 10.8 - 8 10.8 - 8	
		Yen		24.5 - 2 24.5 - 2 24.5 - 2 24.5 - 2 24.5 - 2 24.5 - 2	
		Asian S\$ing		3.2 - 2 3.2 - 2 3.2 - 2 3.2 - 2 3.2 - 2 3.2 - 2	
				- 4 - 3 - 4 - 3 - 4 - 3 - 4 - 3	
top accepted rate	4.8934%	4.9333%			
net rate of discount	4.8896%	4.9394%			
average yield	4.9451%	4.9702%			
rate of next tender	\$200m	\$200m			
net. accept. bid 182 days					

Short term rates are euro for the US Dollar and Yen, others: two day forward							
THREE MONTH EURO DOLLAR (MM) \$1m per 100%							
	Open	Sell price	Change	High	Low	Est. vol.	Open int.
Mar	96.65	96.64	-	96.66	96.63	46,195	420,423
Jun	96.36	96.35	-	96.38	96.33	78,506	387,322
Sep	96.07	96.04	-0.03	96.09	96.03	72,297	268,547
Dec	95.70	95.66	-0.03	95.72	95.65	34,600	204,836
US TREASURY BILL FUTURES (MM) \$1m per 100%							
Mar	98.94	98.93	-	98.95	98.92	1,176	25,961
Jun	98.68	98.68	-0.01	98.69	98.67	538	8,335
Sep	98.41	98.40	-0.02	98.43	98.39	109	2,400

DICES

RY BILL TENDER		Jan 21		Jan 14	
		Sterling		54. - 5% 57.50 53.50 55.50 54.50 55.50 54.50	
		Swiss Franc		44.4 - 4 44.4 - 4 44.4 - 4 44.4 - 4 44.4 - 4 44.4 - 4	
		U.S. Dollar		34.5 - 3 34.5 - 3 34.5 - 3 34.5 - 3 34.5 - 3 34.5 - 3	
		U.S. Dollar		21.8 - 2 21.8 - 2 21.8 - 2 21.8 - 2 21.8 - 2 21.8 - 2	
		Italian Lira		10.8 - 8 10.8 - 8 10.8 - 8 10.8 - 8 10.8 - 8 10.8 - 8	
		Yen		24.5 - 2 24.5 - 2 24.5 - 2 24.5 - 2 24.5 - 2 24.5 - 2	
		Asian S\$ing		3.2 - 2 3.2 - 2 3.2 - 2 3.2 - 2 3.2 - 2 3.2 - 2	
				- 4 - 3 - 4 - 3 - 4 - 3 - 4 - 3	
top accepted rate	4.8934%	4.9333%			
net rate of discount	4.8896%	4.9394%			
average yield	4.9451%	4.9702%			
rate of next tender	\$200m	\$200m			
net. accept. bid 182 days					

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Equities and the Faculty of Actuaries

1994 ————— DOLLAR INDEX —————	Year ago	Increase or decrease for week														
Local Currency Index	1993/94 High	1993/94 Low (approx.)	Wednesday January 19, 1994	£	US\$	€	¥	HK\$	RMB							
BANK RETURN																
BANKING DEPARTMENT																
LIABILITIES																
35	162.76	179.90	118.12	118.12	14,553,000											
37	172.60	191.92	134.09	134.09	4,019,754,015	-284,018,610										
35	145.62	160.01	137.77	137.77	1,441,941,965	-3,062,349										
58	137.25	145.31	111.41	111.41	4,833,229,204	+832,852,678										
37	246.83	260.48	203.20	203.20	1,099,478,185	+545,771,720										
37	173.98	145.91	65.50	67.81												
75	164.15	182.16	142.90	147.10	1,357,308,753	+298,144,989										
59	119.89	142.38	105.59	106.62	9,156,884,114	+243,580,823										
45	457.77	506.95	253.77	253.77	446,420,210	+1,808,186										
30	202.60	207.53	129.29	136.98	8,576,475	+2,313,215										
53	86.26	78.93	55.21	60.42	208,635	-24,515										
60	38.46	165.91	100.97	101.47												
59	504.73	621.63	282.63	282.63	10,969,478,185	+545,771,720										
51	614.63	3,575.89	1410.30	160.35												
42	180.47	203.67	153.75	153.75												
67	67.38	71.76	40.66	40.66	17,131,423,527	-342,213,215										
100	198.86	195.63	138.48	143.50	8,526,843,573	+2,213,215										
67	27.38	378.92	211.20	211.20	17,200,000,000	-340,000,000										
74	247.89	280.26	155.09	155.09												
39	156.99	145.48	116.33	128.50	11,015,000											
65	261.28	216.84	149.69	167.21	5,986,299,000	+509,882,000										
65	152.48	169.15	108.14	112.22	11,907,35,520	+168,662,090										
38	210.75	213.29	162.00	169.34												
19	193.02	193.24	176.28	178.13	17,200,000,000	-340,000,000										
59	167.41	173.63	134.16	136.77												
44	230.12	212.08	142.13	149.21												
49	110.84	168.80	105.17	105.54												
30	132.62	162.87	118.78	118.78												
47	198.16	190.01	172.67	174.01												
75	142.40	150.17	115.10	118.96												
65	261.28	216.84	149.69	167.21												
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19	193.02	193.24	176.28	178.13												
59	167.41	173.63	134.16	136.77												
44	230.12	212.08	142.13	149.21												
49	110.84	168.80	105.17	105.54												
30	132.62	162.87	118.78	118.78												
47	198.16	190.01	172.67	174.01												
75	142.40	150.17	115.10	118.96												
65	261.28	216.84	149.69	167.21												
65	152.48	169.15	108.14	112.22												
38	210.75	213.29	162.00	169.34												
19	193.02	193.24	176.28	178.13												
59	167.41	173.63	134.16	136.77												
44	230.12	212.08	142.13	149.21												
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75	142.40	150.17	115.10	118.96												
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65	261.28	216.84	149.69	167.21												
65	152.48	169.15	108.14	112.22												
38	210.75	213.29	162.00	169.34												
19	193.02	193.24	176.28	178.13												
59	167.41	173.63	134.16	136.77												
44	230.12	212.08	142.13	149.21												
49	110.84	168.80	105.17	105.54												
30	132.62	162.87	118.7													

Equities and the Faculty of Actuaries

1994 ————— DOLLAR INDEX —————	Year ago	Increase or decrease for week														
Local Currency Index	1993/94 High	1993/94 Low (approx.)	Wednesday January 19, 1994	£	US\$	€	¥	HK\$	RMB							
BANK RETURN																
BANKING DEPARTMENT																
LIABILITIES																
35	162.76	179.90	118.12	118.12	14,553,000											
37	172.60	191.92	134.09	134.09	4,019,754,015	-284,018,610										
35	145.62	160.01	137.77	137.77	1,441,941,965	-3,062,349										
58	137.25	145.31	111.41	111.41	4,833,229,204	+832,852,678										
37	246.83	260.48	203.20	203.20	1,099,478,185	+545,771,720										
37	173.98	145.91	65.50	67.81												
75	164.15	182.16	142.90	147.10	1,357,308,753	+298,144,989										
59	119.89	142.38	105.59	106.62	9,156,884,114	+243,580,823										
45	457.77	506.95	253.77	253.77	446,420,210	+1,808,186										
30	202.60	207.53	129.29	136.98	8,576,475	+2,313,215										
53	86.26	78.93	55.21	60.42	208,635	-24,515										
60	38.46	185.91	100.97	101.47												
59	504.73	621.63	282.68	282.68	10,969,478,185	+545,771,720										
51	614.63	3,575.89	1410.30	160.35												
42	180.47	203.67	153.75	153.75												
67	67.38	71.76	40.66	40.66	17,131,423,527	-342,213,215										
100	198.86	195.63	138.48	143.50	8,526,843,573	+2,213,215										
67	27.38	378.92	211.20	211.20	17,200,000,000	-340,000,000										
74	247.89	280.26	155.09	155.09												
39	156.99	145.48	116.33	128.50												
65	281.28	216.84	149.69	167.21	11,015,000											
115	152.48	169.15	108.14	112.22	5,086,299,000	+509,882,000										
38	210.75	213.29	162.00	169.34	11,907,35,520	+168,662,090										
19	193.02	193.24	176.28	178.13	17,200,000,000	-340,000,000										
59	167.41	173.63	134.16	136.77												
44	230.12	212.08	142.13	149.21												
49	110.84	168.80	105.17	105.54												
30	132.62	162.87	118.78	118.78												
47	198.16	190.01	172.67	174.01												
75	142.40	150.17	115.10	118.96												
65	281.28	216.84	149.69	167.21												
115	152.48	169.15	108.14	112.22												
38	210.75	213.29	162.00	169.34												
19	193.02	193.24	176.28	178.13												
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44	230.12	212.08	142.13	149.21												
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75	142.40	150.17	115.10	118.96												
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75	142.40	150.17	115.10	118.96												
65	281.28	216.84	149.69	167.21												
115	152.48	169.15	108.14	112.22												
38	210.75	213.29	162.00	169.34												
19	193.02	193.24	176.28	178.13												
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44	230.12	212.08	142.13	149.21												
49	110.84	168.80	105.17	105.54												
30	132.62	162.87	118.78	118.78												
47	198.16	190.01	172.67	174.01												
75	142.40	150.17	115.10	118.96												
65	281.28	216.84	149.69	167.21												
115	152.48	169.15	108.14	112.22												
38	210.75	213.29	162.00	169.34												
19	193.02	193.24	176.28	178.13												
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44	230.12	212.08	142.13	149.21												
49	110.84	168.80	105.17	105.54												
30	132.62	162.87	118.78	118.78												
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75	142.40	150.17	115.10	118.96												
65	281.28	216.84	149.69	167.21												
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44	230.12	212.08	142.13	149.21												
49	110.84	168.80	105.17	105.54												
30	132.62	162.87	118.78	118.78												
47	198.16	190.01	172.67	174.01												
75	142.40	150.17	115.10	118.96												
65	281.28	216.84	149.69	167.21												
115	152.48	169.15	108.14	112.22												
38	210.75	213.29	162.00	169.34												
19	193.02	193.24	176.28	178.13												
59	167.41	173.63	134.16	136.77												
44	230.12	212.08	142.13	149.21												
49	110.84	168.80	105.17	105.54												
30	132.62	162														

1430	21.62	25.30	35.14	0330	23.71	23.60	26.79
1440	21.67	25.35	35.14	0340	23.82	23.60	26.79
1450	21.72	25.40	35.14	0350	23.93	23.60	26.79
1500	21.77	25.45	35.14	0400	24.04	23.60	26.79
1510	21.82	25.50	35.14	0410	24.15	23.60	26.79
1520	21.87	25.55	35.14	0420	24.26	23.60	26.79
1530	21.92	25.60	35.14	0430	24.37	23.60	26.79
1540	21.97	25.65	35.14	0440	24.48	23.60	26.79
1550	22.02	25.70	35.14	0450	24.59	23.60	26.79
1600	22.07	25.75	35.14	0500	24.70	23.60	26.79
1610	22.12	25.80	35.14	0510	24.81	23.60	26.79
1620	22.17	25.85	35.14	0520	24.92	23.60	26.79
1630	22.22	25.90	35.14	0530	25.03	23.60	26.79
1640	22.27	25.95	35.14	0540	25.14	23.60	26.79
1650	22.32	26.00	35.14	0550	25.25	23.60	26.79
1700	22.37	26.05	35.14	0600	25.36	23.60	26.79
1710	22.42	26.10	35.14	0610	25.47	23.60	26.79
1720	22.47	26.15	35.14	0620	25.58	23.60	26.79
1730	22.52	26.20	35.14	0630	25.69	23.60	26.79
1740	22.57	26.25	35.14	0640	25.80	23.60	26.79
1750	22.62	26.30	35.14	0650	25.91	23.60	26.79
1800	22.67	26.35	35.14	0700	26.02	23.60	26.79
1810	22.72	26.40	35.14	0710	26.13	23.60	26.79
1820	22.77	26.45	35.14	0720	26.24	23.60	26.79
1830	22.82	26.50	35.14	0730	26.35	23.60	26.79
1840	22.87	26.55	35.14	0740	26.46	23.60	26.79
1850	22.92	26.60	35.14	0750	26.57	23.60	26.79
1900	22.97	26.65	35.14	0800	26.68	23.60	26.79
1910	23.02	26.70	35.14	0810	26.79	23.60	26.79
1920	23.07	26.75	35.14	0820	26.90	23.60	26.79
1930	23.12	26.80	35.14	0830	27.01	23.60	26.79
1940	23.17	26.85	35.14	0840	27.12	23.60	26.79
1950	23.22	26.90	35.14	0850	27.23	23.60	26.79
2000	23.27	26.95	35.14	0900	27.34	23.60	26.79
2010	23.32	27.00	35.14	0910	27.45	23.60	26.79
2020	23.37	27.05	35.14	0920	27.56	23.60	26.79
2030	23.42	27.10	35.14	0930	27.67	23.60	26.79
2040	23.47	27.15	35.14	0940	27.78	23.60	26.79
2050	23.52	27.20	35.14	0950	27.89	23.60	26.79
2100	23.57	27.25	35.14	1000	28.00	23.60	26.79
2110	23.62	27.30	35.14	1010	28.11	23.60	26.79
2120	23.67	27.35	35.14	1020	28.22	23.60	26.79
2130	23.72	27.40	35.14	1030	28.33	23.60	26.79
2140	23.77	27.45	35.14	1040	28.44	23.60	26.79
2150	23.82	27.50	35.14	1050	28.55	23.60	26.79
2200	23.87	27.55	35.14	1100	28.66	23.60	26.79
2210	23.92	27.60	35.14	1110	28.77	23.60	26.79
2220	23.97	27.65	35.14	1120	28.88	23.60	26.79
2230	24.02	27.70	35.14	1130	28.99	23.60	26.79
2240	24.07	27.75	35.14	1140	29.10	23.60	26.79
2250	24.12	27.80	35.14	1150	29.21	23.60	26.79
2300	24.17	27.85	35.14	1200	29.32	23.60	26.79
2310	24.22	27.90	35.14	1210	29.43	23.60	26.79
2320	24.27	27.95	35.14	1220	29.54	23.60	26.79
2330	24.32	28.00	35.14	1230	29.65	23.60	26.79
2340	24.37	28.05	35.14	1240	29.76	23.60	26.79
2350	24.42	28.10	35.14	1250	29.87	23.60	26.79
2400	24.47	28.15	35.14	1300	29.98	23.60	26.79

Notes are obtained for every half hour in each hour, but these times are in standard time. The times are in standard time, but the times are in standard time. The times are in standard time, but the times are in standard time. The times are in standard time, but the times are in standard time. The times are in standard time, but the times are in standard time. The times are in standard time, but the times are in standard time. The times are in standard time, but the times are in standard time. The times are in standard time, but the times are in standard time. The times are in standard time, but the times are in standard time. The times are in standard time, but the times are in standard time. The times are in standard time, but the times are in standard time. The times are in standard time, but the times are in standard time. The times are in standard time, but the times are in standard time. The times are in standard time, but the times are in standard time. 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FT GUIDE TO THE WEEK

24

MONDAY

Japanese coalition crisis

Members of Japan's ruling coalition meet the opposition Liberal Democratic party in an attempt to revive the political reform bill, crippled by a defeat in the upper house of parliament on Friday. Prime minister Morihiro Hosokawa hopes to persuade the LDP to form a joint panel of the upper and lower houses of parliament to agree to a watered down version of his four reform bills. He has given himself until the end of the parliamentary session on January 29 to get the bills through.

Mr Hosokawa said he would still attend the US-Japan summit in Washington on February 11, to conclude talks on opening Japan's market to imports. Three Japanese vice-ministers meet their US counterparts in Washington today for critical talks on the bilateral "framework" trade agreement.

Patten seeks approval: Chris Patten, governor of Hong Kong, attends a meeting of the British Cabinet's Hong Kong sub-committee. The governor is expected to seek approval to push ahead with his democracy proposals in the form of a second bill to be put to Hong Kong's legislature in March.

US-China talks: US secretary of state Warren Christopher meets Chinese foreign minister Qian Qichen in Paris. They will follow up treasury secretary Lloyd Bentsen's talks in Beijing last week. The US has said China's human rights record must improve if it is to retain its most favoured nation trading status.

The Council of Europe holds its winter parliamentary assembly from Monday to Friday in Strasbourg. The main topic is the conflict in former Yugoslavia. Thorvald Stoltenberg, the UN mediator, speaks on Tuesday and Israeli prime minister Yitzhak Rabin on Friday.

Delegations from the parliaments of the Council's 32 member states will also debate plans for new applicants after receiving applications from Russia, Ukraine, Albania, Belarus, Croatia, Latvia, the former Yugoslav republic of Macedonia, and Moldova. Entry depends on candidates passing the test of free and fair elections and showing respect for human rights.

Greeks debate Macedonia: Andreas Papandreu, Greece's prime minister, opens a debate in parliament on the dispute with the neighbouring former Yugoslav republic of Macedonia over its choice of name.

Papandreu shifted his position last week, saying Greece would be willing to hold direct talks with Macedonia under UN sponsorship. Greece accuses Macedonia of harbouring territorial claims against the northern Greek province of Macedonia.

Lebanese PM Rafiq al-Hariri is due to start a three-day official visit to London. He will hold talks with John Major, the prime minister, and Douglas Hurd, the foreign secretary.

25

TUESDAY

Clinton's state of the union

US Congress reconvenes after its winter break. In the evening, it will hear President Bill Clinton's second state of the union address. Clinton, troubled by Whitewater investigations, but rising to new highs in opinion polls, will lay out in his televised speech a heavy domestic legislative programme. It will be topped by health-care reform, but also includes anti-crime initiatives, welfare reform and worker retraining.

Algerian reconciliation: The ruling High Council has called a "national conference of reconciliation" in Algiers to try to end an increasingly bloody conflict which has left more than 3,000 dead. The Council has been running the country since the cancellation in January 1992 of elections that the now-banned Islamic Salvation Front (FIS) was poised to win. Most opposition groups will boycott the conference.

French Communist conference: The main task at the party's 28th congress (to Jan 29) is to choose a successor to chairman Georges Marchais, 73. The veteran hardliner (left), is to step down after 22 years.

Who replaces him will be critical in determining whether the ailing party will become a force in French politics again.

Banesto rescue: The Governor of the Bank of Spain meets the presidents of Spain's big banks to discuss financing a rescue of Banesto, the bank whose board was sacked by the Central Bank on December 28.

Portuguese strike: Portuguese civil servants, doctors and teachers have called a national one-day strike in protest at proposals by prime minister Anibal Cavaco Silva's centre-right government to limit 1994 public administrative sector pay rises to 2 per cent. Transport workers also plan stoppages.

Union ban anniversary: Today is the 10th anniversary of the British government's ban on trade union membership at the Government Communications Headquarters (GCHQ), the surveillance centre at Cheltenham. Unions plan a march and rally there on Saturday.

Scott inquiry: British foreign secretary Douglas Hurd follows his predecessor Geoffrey Howe, and prime minister John Major in giving evidence to the arms-for-Iraq inquiry by Lord Justice Scott.

Burns Night: Scots of all nations will be marking the anniversary of the birth of Scotland's national poet, Robert Burns in 1759, with generous helpings of whisky and haggis.

26

WEDNESDAY

Irish budget Day



Bertie Ahern, finance minister (left), should have much more room for manoeuvre in framing his budget than in previous years. He is favoured by buoyant tax returns in 1993, promising growth prospects for 1994, and additional receipts from privatisations. Mr Ahern is under pressure to reduce income tax and employers' social insurance contributions. Specific job-creation measures are also expected.

Southern African development: Ministers and officials from the 10-member Southern African Development Community (SADC) meet in the Botswana capital, Gaborone, to discuss funding with donors. On Thursday and Friday they discuss strategy.

SADC, whose members are Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zimbabwe and Zambia, is at a crossroads. It transformed itself 18 months ago from a co-ordinating conference into a development community committed to closer economic integration. Its next task is to formulate concrete strategies, especially on trade and investment.

Delegates will also contemplate the economic implications of majority rule in South Africa after April 27 and the likelihood that South Africa will become its 11th member.

German economy: Günter Rexrodt, Germany's economics minister (left), will present to the cabinet his annual 1994 report on the state of the economy. The report is expected to forecast



growth of 1 to 1.5 per cent in gross domestic product this year, an estimate more optimistic than that of independent analysts.

Holidays: Indian Republic Day (markets, banks and government offices closed). Chief guest at the festivities is Singapore prime minister, Goh Chok Tong. India hopes his visit will bring improved trade and investment relations with the south-east Asian dragon economy.

Australia Day (markets closed).

FT survey: Mobile Computing. Portables are more than an accessory for power dressers, but they still lack sufficient battery power.

27

THURSDAY

Spanish general strike

Spain's two biggest trade unions hold a one-day national general strike in protest at the Socialist government's plans to reform the labour market to make it easier to hire and fire staff. Transport is likely to be badly hit and stoppages will probably be widespread.

Bank of France meets: The newly independent Bank of France holds a council meeting to set the bank's monetary policy targets for the current year.

Unfortunately, the meeting could not come at a more difficult time. France, according to the Balladur government, is creeping out of recession, but economic indicators for the past few months - and forecasts for the coming year - are very mixed.

This will make the task of setting targets more than usually complicated.

Lithuanian president Algirdas Brazauskas is to meet European Commission president Jacques Delors in Brussels. Lithuania will also sign up to Nato's "partnership for peace" plan, becoming the first state in the former Soviet bloc to do so. Russian President Boris Yeltsin has warned the west that eastward expansion of the western defence alliance will only encourage a nationalist backlash within Russia.

EIB results: The European Investment Bank publishes its results for 1993 and a review of its current operations. Watch out for clues on how the fast-growing EIB intends to follow up the European Union's agreement to invest more in a trans-European networks in roads, rail and telecommunications.

Davos economic forum: Yassir Arafat, Shimon Peres, Helmut Kohl, Hans Tietmeyer, Viktor Chernomyrdin, Lee Kuan Yew, Benazir Bhutto, P.V. Narasimha Rao, Kenneth Clarke and scores of other top politicians join hundreds of business leaders and academics at the Swiss ski resort of Davos for a weekend of seminars with the modest aim of "redefining the basic assumptions of the world economy" (to Jan 31).

The gathering, known as the annual meeting of the World Economic Forum, also enables the participants to indulge in skiing, public posturing, private conspiring and general networking.

Social Trends, the annual compendium of British social statistics, is published. It will focus on low-income households.

FT survey: FT Exporter. Exporters across the globe now face brighter prospects, following a year of feeble growth in the industrialised world.



Bosnia's winter

28

FRIDAY

Vote on phone-tap scandal

Greece's parliament votes on whether former prime minister Constantine Mitsotakis should be prosecuted by a special court on charges of ordering illegal phone-taps of political rivals.

The debate comes as Mr Mitsotakis faces the possibility of another embarrassing court case. The Culture Ministry has accused him of adding artefacts looted from graves on Crete to his private collection of antiquities.

Zambian budget: Finance minister Ronald Penza presents his 1994 budget against a deepening crisis. Last year's budget promised tight controls on spending, big reductions in the money supply, and 10 per cent inflation by the end of 1993. These targets have been missed, and austerity policies will have to continue. Allegations of cabinet-level corruption have led to resignations and dismissals, while donors are threatening to withhold aid unless Lusaka cleans up its act.

Banco Latino, Venezuela's second largest commercial bank, run by the government after falling on January 14, re-opens to start repaying small account holders up to US\$930 each.

29-30

WEEKEND

South African dissenters

On Saturday, the white right wing plans to announce a transitional authority to rival the Transitional Executive Council, the multi-party body managing the country's transition to democracy.

The Zulu-based Inkatha party takes all weekend to decide whether to take part in the all-race elections in April.

Referendums on Sunday: Kyrgyzstan holds a vote on presidential powers. President Askar Akayev's government recently resigned after a corruption scandal. The vote may also test the IMF's credibility in the area, as Kyrgyzstan is the first Central Asian republic to adopt its currency reform proposals.

Geatemalans vote on constitutional reforms. These would bring forward congressional elections, depoliticise supreme court appointments, decentralise government spending, and reduce terms of office.

American Football Super Bowl XXVII, the climax of the season, takes place in Atlanta on Sunday.

Compiled by Robert Anderson and Patrick Stiles. Fax: (+44) (0)171 873 3194.

Other economic news

Monday: The Confederation of British Industry produces its quarterly economic trends survey, a far-reaching report on manufacturing industry, which should confirm that the improved pace of recovery continued into the first quarter of this year. It should also show that price and cost pressures remain subdued.

Tuesday: November construction and new order figures for the UK are released. Recent figures have shown an improvement in the construction market, and industry will watch today's figures to check that the gains have been sustained.

Friday: US GDP is forecast to have risen an annualised 5.3 per cent in the fourth quarter, while in the UK, non-European Union trade figures are forecast to show another slim narrowing of the deficit. MP Nick Budge's private member's bill seeking greater autonomy for the Bank of England gets a second reading.

France produces its visible trade balance figures for November. In October, there was an impressive FF8.7bn surplus, with the recession producing a large fall in imports. Much the same picture is expected for November.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	CBI quarterly industrial trends		
Jan 24	Canada	November retail sales**	+0.6%	+0.1%
Tues	US	December existing home sales	-	\$4.21m
Jan 25	US	January consumer confidence	85%	80.2%
	Japan	November income - workers**	-	-0.7%
	Japan	November coincident index	-	20.0%
	Japan	November leading diffusion index	-	30.0%
	UK	Nov construction and new orders		
Thu	US	December durable orders	+1.5%	+1.9%
Jan 27	US	December durable shipments	-	+2.7%
	US	Initial claims w/e Jan 22	360,000	380,000
	US	State benefits w/e Jan 15	-	2,657m
	US	Monetary statistics for w/e Jan 17		
	Japan	December retail sales**	-4.1%	-6.9%
	Australia	Dec motor vehicle registrations	+1.2%	+7.4%
	Australia	Fourth quarter CPI**	+2.2%	+2.2%
	Canada	December industrial production*	+0.1%	+0.2%
	Canada	Dec raw materials price index*	-1.8%	-2.3%
Friday	US	Fourth quarter GDP advance	+5.2%	+2.9%
Jan 28	US	4th quarter GDP deflator advance	+2.4%	+1.6%
	US	December export price index	-	+0.2%
	US	December import price index	-	-0.7%
	US	December bank credit	-	+6.3%
	US	December C&I loans	-	+1.2%
	US	January Michigan sentiment final	-	95.8%

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
	Japan	January Tokyo CPI**	+1.3%	+1.3%
	Japan	Jan CPI excluding perishables**	+1.3%	+1.1%
	Japan	December national CPI**	+1.1%	+0.9%
	Japan	December excluding perishables**	+0.8%	+0.9%
	Japan	December unemployment rate	-	2.8%
	Japan	December industrial production	-3.2%	+1.8%
	Japan	December shipments	-	+0.4%
	France	Third quarter GDP	-	+0.3%
	France	November trade balance	FF6.5bn	FF6.7bn
	Canada	November employment earnings*	+1.3%	+0.9%
	UK	November non-EU trade balance	-£700m	-£67m
	New Zealand	December trade balance	-	-NZ\$70m
During this week...				
	Germany	January cost of living (prelim)**	+3.5%	+3.6%
	Germany	December import prices**	-1.0%	-1.4%
	Germany	December M3 from 4th qtr base	+7.2%	+7.2%
	Italy	November global trade balance	+1.5tr	+0.8tr
	Italy	November EU trade balance	+1.0tr	+1.3tr
	Italy	Dec foreign exchange reserves	LS4.8tr	LS3.5tr
	Belgium	January CPI**	+2.7%	+2.7%
	Spain	December PSBR	-Pta850bn	-Pta260.5bn
	Spain	December trade balance	-Pta184.5bn	-Pta200bn
	Sweden	December PPI**	5.0%	+6.5%
	Finland	December trade balance	FM1.9bn	FM2.06bn

*month on month, **year on year

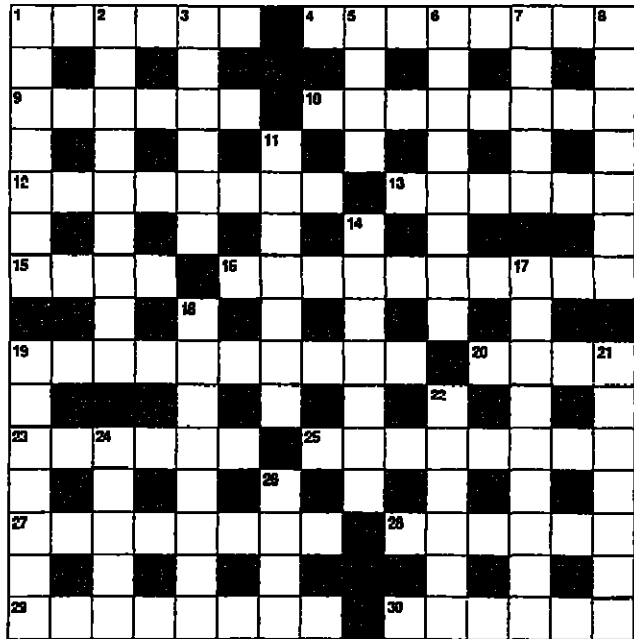
Statistics, courtesy MIMS International.

ACROSS

- Strong and healthy - or alternatively bankrupt (6)
- Ships, and in them, pirates (8)
- Point a fair way out for an excursion (6)
- It's therapeutic to see the priest about tea-time (6)
- A piece from the Financial Times about scrap dealers? (6)
- End VAT for the time before Christmas? (6)
- Expression used to attract attention (4)
- It's sad but courage is needed as a policeman (10)
- Note AB isn't represented, refusing to vote (10)
- Gravity-free network (4)
- A quick reply from the laboratory? (6)
- A bright little pupil? (5,3)
- On the wrong side where banks are concerned (2,3,3)
- Leading Cuban actors in play (6)
- Not an odd time for a church service (8)
- Loves one so dear perhaps (6)

DOWN

- Still in a terrible fluster (7)
- Wild animals have to rub on trees (9)
- Ten-foot midget? (6)
- Flight in an organised tour (4)
- The daughter's offspring is a great lad (6)
- This is one form of disturbance (3)
- She is given two articles set in a case (7)
- Swell way to increase prices (7)
- Shy indeed, but lured into a trap (7)
- Hill guide, a constant worrier (9)
- They flight, though they're not boxers (6)
- Transport essential to divers (3,4)
- One's mad to mix spirits (7)
- Potato King (6)
- Turn it over to the church (5)
- Forest administrator (4)



MONDAY PRIZE CROSSWORD

No.8361 Set by DANTE

A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of 35 Pelikan vouchers will be awarded. Solutions by Thursday February 3, marked Monday Crossword 8361 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 1UL. Solution on Monday February 7.

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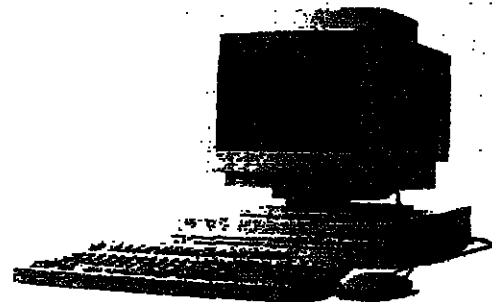
Winners 8,349

Solution 8,349

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